Atty. Dkt. No. 046983-0103

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant: A. Maxwell Eliscu

Title: SYSTEM FOR AND METHOD OF HANDLING REFERRALS FROM REFERRING PARTIES

Appl. No.: 09/667,391

Filing Date: 9/20/2000

Examiner: Jennifer L. Liversedge

Art Unit: 3628

CERTIFICATE OF MAILING
I hereby certify that this correspondence is being deposited with the United States Postal Service with sufficient postage as First Class Mail in an envelope addressed to: Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450, on the date below.

Callie M. Bell
(Printed Name)

Callie Bell
(Signature)

June 6, 2006
(Date of Deposit)

Commissioner for Patents
P.O. Box 1450
Alexandria, Virginia 22313-1450

DECLARATION UNDER 37 C.F.R. 1.131

Dear Examiner Liversedge:

I, A. Maxwell Eliscu, state and declare that:

1. I am the inventor of the invention recited in claims 1-3, 5, 7-12, and 14-67 of the patent application identified above and am an employee of LSQ II, LLC, the Assignee of the patent application.

2. On or before May 27, 2000, I conceived in the United States the subject matter of Claims 1-3, 5, 7-12, and 14-67 as evidenced by the attached Exhibits A and B.

3. Exhibit A (44 pages), titled "BUSINESS DEFINITIONS DOCUMENT" is a copy of a business plan of LSQ II, LLC, which describes and illustrate features required by claims 1-3, 5, 7-12, and 14-67 of the above-referenced patent application.

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4. Exhibit B (46 pages), titled "BUSINESS DEFINITION DOCUMENT" is a copy of a revised business plan of LSQ II, LLC, which describes and illustrate features required by claims 1-3, 5, 7-12, and 14-67 of the above-referenced patent application.

5. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true, and further that these statements are made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code and that such willful false statements may jeopardize the validity of the application or any patent issuing thereon.

Date: 6/6/06

By: A. MAXWELL ELISCU

Exhibit A

BUSINESS DEFINITIONS DOCUMENT

LSQ II, LLC, dba LSQ Systems

Prepared by
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STATEMENT OF CONFIDENTIALITY

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1. Executive Summary

LSQ Systems ("LSQ"), a small business B2B infrastructure provider, data aggregator, infomediary and factoring company, has redefined the traditional factoring model by developing unique Web based applications that facilitate trade credit sales and transaction management while complementing the existing benefits of B2B online commerce. LSQ will help small businesses by facilitating trade credit decisions, outsourcing receivable management operations, reducing transaction management costs, increasing efficiencies and providing working capital financing (factoring).

Market Opportunity and Size

Industry fragmentation and limited access to data, perceived as ongoing constraints in the small business marketplace, create significant inefficiencies for business owners. In their pursuit of reliable and timely credit information on potential customers, managers must utilize traditional tools (i.e. telephone, fax and voice mail) to cross markets and industries. Additionally, substantial manual resources are dedicated to credit evaluation, processing, reconciling, and analyzing transactions and resolving buyer disputes. LSQ will fill a need in the marketplace by facilitating and/or conducting these activities for its clients, thereby alleviating internal workload constraints and freeing business managers and owners from unnecessary distractions.

The small business marketplace is comprised of 16.7 million sole-proprietorships and 5.4 million employer firms. While aggregate revenue figures for sole proprietorships are not available, employer firms report annual revenues in excess of $7.4 trillion.[1] Of these firms, over 2.16MM (40%) were accessing the Internet in 1998, a 92% increase since 1996. This growth is expected to continue to accelerate, with total small business e-commerce earnings projected to reach $25 billion by 2002.[2] Of all small firms, only 26% (1.4MM) have lines of credit, as opposed to 60% of all large firms.[3] This financing gap is indicative of the divergence between traditional banks' credit standards and small businesses' balance sheet realities. Faced with limited opportunities for traditional financing, many small businesses turn to a fragmented and unsophisticated population of independent finance companies.

LSQ's Role in the B2B Supply Chain and Marketplace

LSQ's Internet based platform ("LSQ/FI MarketPlace") will improve market liquidity by aggregating customer credit information and using custom analytics to remove credit bottlenecks while improving trading partner confidences. LSQ's MarketPlace will enable all participants (Buyers/ Sellers/ Financial Institutions ("FI") /B2B sites) to efficiently manage, track, process and reconcile on-line **and** off-line commercial transactions. Since supply chain participants will be able to complete tasks with greater efficiency and accuracy, management resources will be freed to focus on core competencies.

The innovation and convenience available through LSQ unlocks market and business opportunities inaccessible to operations that remain at the mercy of the telephone and fax. Through LSQ, online and off-line sellers and buyers will evidence better access to information, resulting in increased market opportunities and positive gains in financial earnings.

Proposed Distribution Channels

LSQ Systems will partner with major financial institutions ("FI") to enable them to offer their valued, but traditionally "unbankable", small business customers and prospects an alternative working capital solution. Through LSQ's e-enabled factoring model (working capital finance product) and the LSQ/FI MarketPlace, FI's will be able to maintain their relationship with, and Brand exposure to, declined customers, without assuming credit risk. In addition, due to LSQ's role as a small business factor and B2B trade enabler, the number of participants in each FI MarketPlace will increase exponentially with

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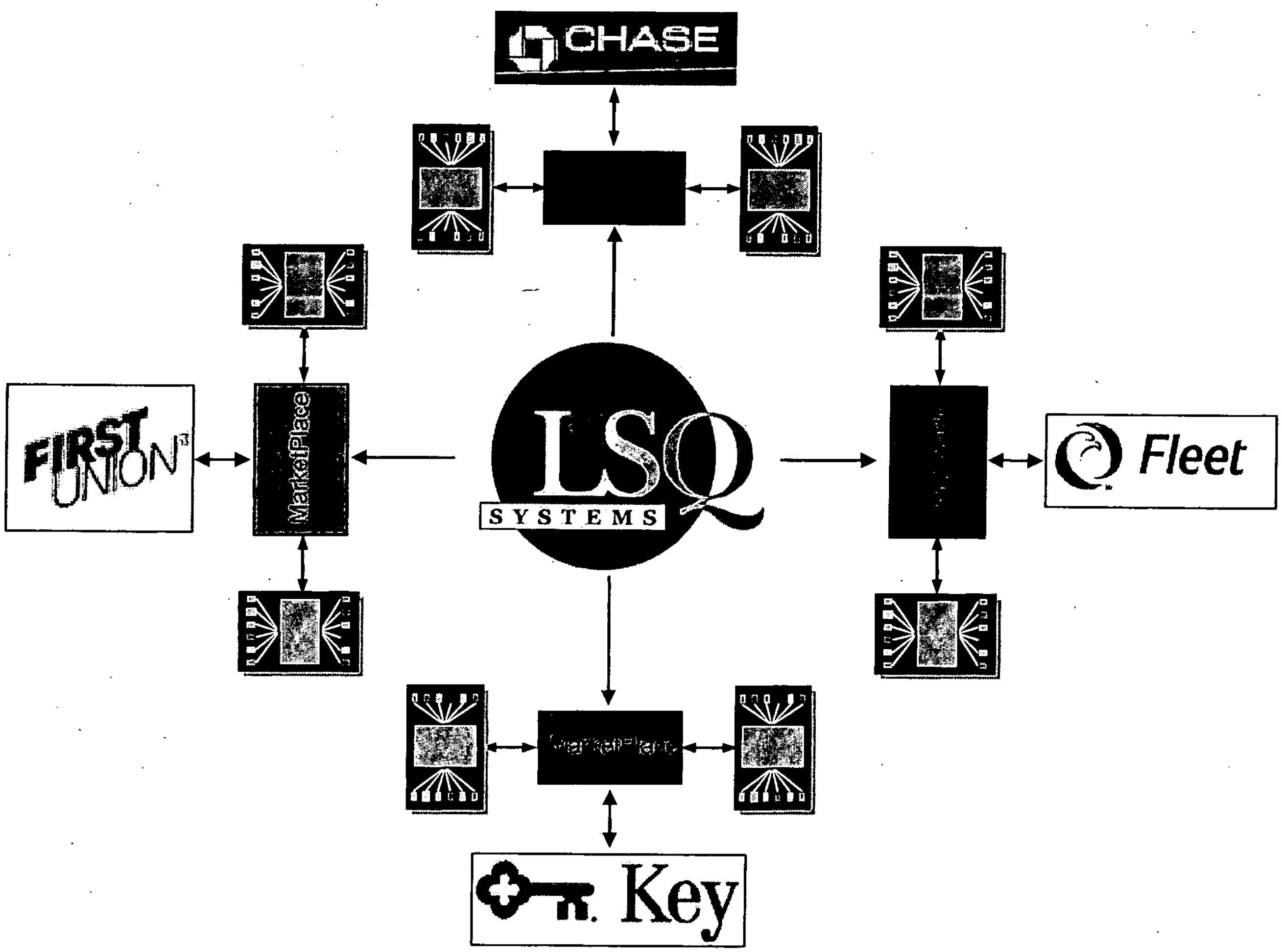
1 SBA, Office of Advocacy, Small Business Answer Card, 1998

2 Meridian Research Inc., Internet Banking for Small Business, January 1999

3 SBA, Office of Advocacy, Small Business Answer Card, 1998

the addition of each referred client and its buying community. This exponential effect will dramatically expand each FI's reach and Brand exposure, creating significant marketing and sales opportunities.

By referring loan declinations to LSQ, FIs will realize enhanced revenue streams and incremental sales opportunities. LSQ will pay referral fees to each FI based on a percentage of the revenues earned by LSQ. Incremental sales opportunities will be driven through the profiling tools housed in each LSQ/FI MarketPlace. These tools will enable each FI to seamlessly deliver a full complement of banking products and services to all referred clients, and their customers. The targeted delivery of these products and services will increase FI product penetration and Brand exposure, increasing the likelihood of declination migration back to the referring FI.



By developing MarketPlaces for each FI, and flagging, tracking and segregating clients (sellers) by referral source, each FI will retain access and maintain Brand exposure to its referred clients' (sellers) while gaining access and Brand exposure to their buying communities. This segregation increases brand exposure, reduces competition and prevents commoditization.

Each client and customer (buyer) entering each respective LSQ/FI MarketPlace will view customized web pages, targeted based on established profiles. These pages will generally be branded as the FI and will offer FI content and product delivery specific to the needs of each MarketPlace participant.

Value Proposition to Equity Investors

Equity partners will be positioned to realize an achievable return on investment, supported by positive monthly cashflows by the end of year one. Options will also be granted to increase returns through maintaining investment to IPO or Trade sale. LSQ will provide a clearly articulated choice of three exit strategies that are achievable within 3 years, each of which allows Equity Partners to realize their targeted return on investment.

LSQ Management team

LSQ's focused management team possesses wide and varied experience across a number of financial institutions in the banking and factoring industries. The leaders of LSQ have a proven track record of building and running finance companies, and are now seeking to expand their successful existing company into the e-space. The team's extensive industry background gives it the necessary knowledge, experience, client network and expertise to facilitate the successful implementation of LSQ.

2. Vision of LSQ

Mission Statement

LSQ will lead the market as an online small business supply chain transaction infrastructure provider and factoring credit source. LSQ's Internet driven receivable management and financing platform will deliver "best of breed" products and services, transforming the way small businesses transact, manage and finance their on-line and off-line sales.

3. Overview of LSQ's Business Model

Core Business Strategies

By web-enabling the core business capabilities and the expertise developed by LSQ Funding Group, LC ("LSQF" See #4 below), LSQ will provide considerable value to all participants in its MarketPlace, including sellers (LSQ clients), buyers (sellers' customers), financial institution participants and B2B sites. LSQ will help small businesses by facilitating trade credit decisions, outsourcing receivable management operations, reducing transaction management costs, increasing efficiencies and providing working capital financing (factoring). These benefits will enable LSQ to become an integral component of both its small business sellers' and buyers' daily operations.

Through alliances with key banks, LSQ will provide "Financial Partners" the opportunity to generate fee income from declination referrals while simultaneously preserving and strengthening valued relationships with customers and prospects deemed "unbankable" from a traditional credit perspective. Customers' financing needs will be addressed through a near-time, seamless process that ensures responsiveness while minimizing the sourcing bank's back-office involvement.

In addition, LSQ's branding strategies and interface capabilities will offer Financial Partners unique marketing opportunities. Through the LSQ MarketPlace each Financial Partner will retain access and gain Brand exposure to its declined customers and their buying community (the network of customers that purchase from LSQ's clients). Furthermore, the marketing database and profiling tools imbedded in each MarketPlace will enable each Financial Partners to seamlessly deliver targeted products, services and content to each participant.

LSQ's management team has been assembled from the senior ranks of LSQ Funding Group ("LSQF") as well as other first tier financial institutions and factoring companies. LSQF is a highly successful off-line provider of small business factoring and trade credit underwriting services to clients throughout the Southeastern United States. It has a proven track record of managing receivables and providing trade credit services to small businesses across a broad spectrum of industries (See below).

Through various distribution channels, LSQ expects managed transaction volume to exceed $429.8MM within the first year of operations, with revenue projected at $12.4MM. By the end of the third full year of operations, managed transaction volume is forecast to exceed $4.7B, with revenues projected at $136.7MM. Bad debts on purchased accounts, as a measure of credit quality, are forecast at 12.5 BPs, in line with average charge off rates for more traditional small business loan portfolios. This strong performance, despite the below average credit profiles associated with the targeted segment of the small business market, is achieved by adopting and applying LSQF's proven underwriting standards. In addition, LSQ will implement passive monitoring/early warning tools, concentration tracking, migration modeling, performance analytics, vintage curve analyses and other proactive portfolio management techniques to minimize credit quality erosion over time.

LSQ's strategic business plan is based on a fundamentally sound business model and demonstrates a positive cash flow by month 12.

4. Profile of Antecedent Business Entity - LSQ Funding

Background - LSQ Funding Group

LSQ Funding Group, founded in 1996, is a privately held off-line small business factoring company based in Orlando, Florida. The core management team, comprised of three senior managers, represents over 50 years of experience in factoring and credit operations (with traditional old-line factors). Customers range in size from $500M to $10MM in revenues and span a broad range of industries.

Superior service quality levels have enabled LSQF to maintain a stable portfolio of clients. SunTrust Bank, who has maintained a banking and referral relationship with LSQF since 1997, states "LSQ Funding Group has consistently demonstrated their dedication and commitment to customer service and value. Our client and prospect referrals have consistently voiced appreciation for our referral to LSQF, and we plan to continue to work closely with them in the future...."

Year over year purchases have grown an average of 60% with year 2000 purchases expected to exceed $80MM and year 2001 purchases expected to exceed $150MM. Net profitability has averaged 35% with a bad debt history of less than 3 basis points. The company has consistently exceeded all financial projections.

LSQF currently enjoys a steady deal flow of small business declination referrals through its formal and informal relationships with SunTrust, SouthTrust, Bank of America, numerous community banks and a variety of regional professional service firms.

5. Business Description and Model

Core Services

LSQ's core business will consist of three integrated services, as follows:

- Working capital financing (factoring) to support growing small businesses (clients) which sell goods and services on trade credit terms to other businesses (customers)
- End-to-End transaction management for small business clients
- Trade credit underwriting and evaluation services for clients and/or other B2B sellers

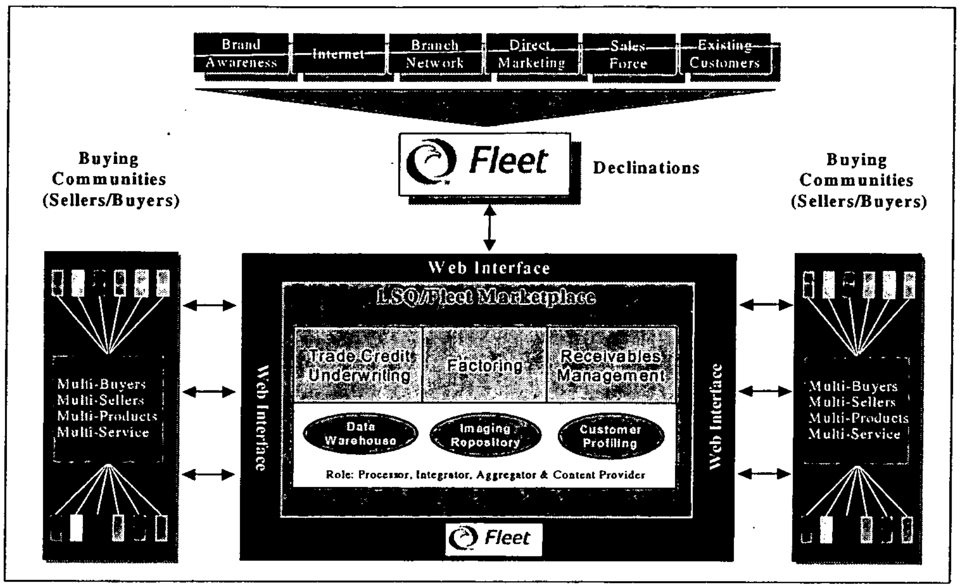
Through these core business services, LSQ will realize cumulative revenues and free cashflows during its first three years of $212.9MM and $91.7MM, respectively.

As a natural by-product of the core services described above, LSQ will have access to multiple layers of customer data. By aggregating customer-supplied data with external credit information and internal performance and behavioral pattern analyses, an extensive marketing data warehouse will be created. Utilizing LSQ's robust profiling tools and product delivery toolset, financial institutions, B2B

partners and third party advertisers will be able to seamlessly deliver targeted products, services and content to MarketPlace participants. This presents the opportunity for additional revenue streams from advertising sales.

Business Model

LSQ's unique business model leverages Web technology to deliver its key value propositions in a seamless and cost effective manner.



LSQ's core product will be marketed as an Internet driven transaction management and finance product. The two will not be mutually exclusive. Small businesses will have the opportunity to utilize LSQ's online transaction and receivable management products without pursuing LSQ's financing product. However, all finance customers will receive the benefit of LSQ's transaction and receivable management products.

6. Description of Products and Services

LSQ Trade Credit Underwriting and Financing Products

LSQ will offer working capital financing to small and middle market businesses ($500M-$10MM in annual revenue) that sell to other businesses on credit terms. LSQ's credit sophistication and internal receivable management methodology will enable it to provide working capital financing to clients who are not yet eligible for, or who do not have access to, sufficient bank credit. LSQ will provide these businesses with working capital financing through the purchase of their receivables. Aggregate credit exposures for client relationships will range from $50M to $1.5MM. The infrastructure LSQ develops will facilitate high volume trade credit underwriting and receivable management. LSQ will leverage this infrastructure by offering these services to financing and non-financing clients. LSQ will charge a discount of between 1% and 3.3% for the management of receivables. If clients require funding, LSQ will advance funds to those clients at advance rates of between 70% and 90% (of the submitted and eligible accounts).

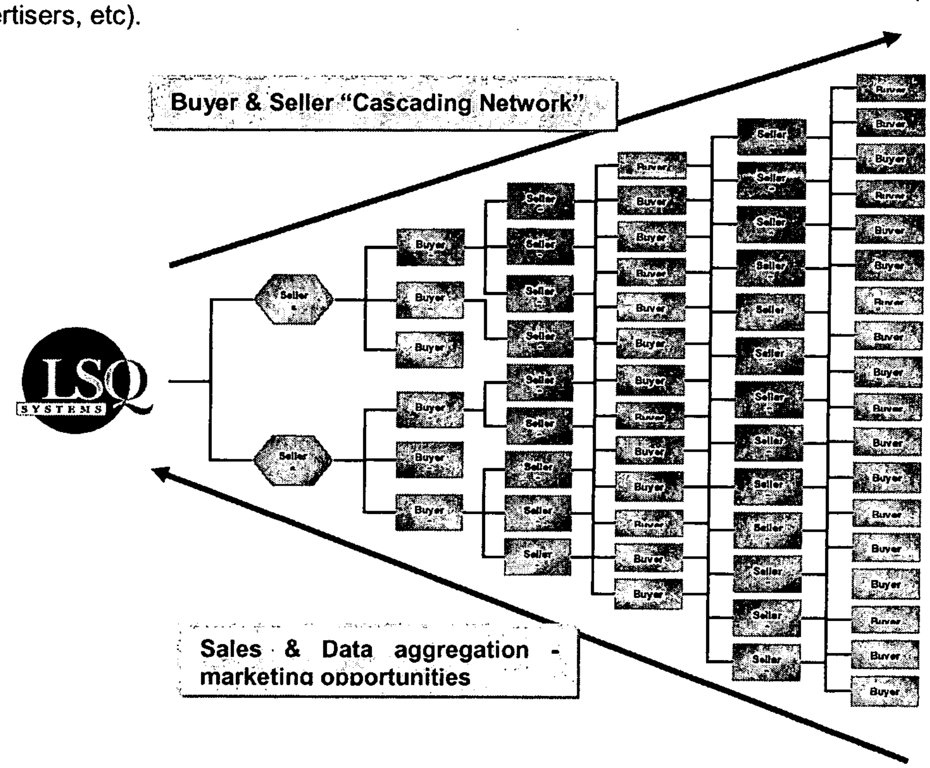
Transaction Management Services

LSQ will offer clients, both financing and non-financing, transaction management services. These services will include receivable and credit management, data hosting, transaction download/upload functionality and buyer/seller transaction communication and interactivity.

Receivable management clients will transfer all receivable management responsibilities to LSQ, including collections, cash applications, transaction reporting and credit management. LSQ will provide clients with access to a web based credit approval tool, enabling near-time credit decisioning and review of appropriate credit lines for new and existing customers.

Target Marketing Services

The number of participants in the LSQ MarketPlace will increase exponentially with the addition of each referred client and its buying community. This network effect will dramatically expand each MarketPlace's reach, creating significant marketing and sales opportunities for alliance partners (FIs, B2B, Advertisers, etc).



LSQ's relationships with sellers, coupled with the trade credit underwriting and ongoing transaction management activities associated with these sellers' customers, affords LSQ access to multiple layers of customer data. This data will be captured and used to improve credit screening and reduce future underwriting costs. The breadth of data obtained supports profiling and target marketing, enabling the creation of a unique "one-to-one" marketing platform. Aggregation of customer supplied data, enriched by external credit information and internal performance/ behavioral pattern analyses will support an extensive data warehouse for target marketing programs.

Financial Partners, B2B Partners and third party advertisers will gain access to LSQ's profiling tools via the web. LSQ's profiling tool-set will enable these business partners to initiate real-time tailored Internet marketing campaigns to MarketPlace participants.

7. Description of Core Product and Service Functionality

Web Access to Data

LSQ's products and services will be offered through a secure website. All transactions with LSQ and between clients and their customers will be web-enabled. Clients will have the ability to review credit line availability, invoice assignments, invoice aging reports, invoice specific collector notes and fees, as well as initiate advances from LSQ. They will also be able to electronically request credit approvals, monitor customer (buyers) credit lines and communicate with LSQ and their customers. Customers will be able review their full account statements (what they have purchased and when it is due), segregate and sort all information, review all transaction histories, view all transaction documents (invoices, shipping documentation, purchase orders, etc.) review credit lines, access bank account information, analyze vendor (seller) performance history, pay invoices, dispute invoices, reorder and communicate with their vendors.

Online Transaction Reporting

LSQ will ledger client invoices, provide online access to credit information on existing and new customers, send customers monthly statements, manage all collection efforts, apply all payments and provide detailed reporting on all transactions. In addition, clients and customers will be able to access LSQ's secure web site, query LSQ's system for customized information and download all data directly into their G/L. When accessing LSQ's web data, clients (sellers) and customers (buyers) will be able to view actual transaction documentation including purchase orders, invoices and shipping documentation. In addition, clients and customers will be able to dispute invoices and issue credits online.

Interface with Accounting Software

LSQ will enable clients and their customers to download transactions directly into a number of widely used accounting packages. Clients and customers using accounting software packages such as QuickBooks or Peachtree, with the click of a button, will be able to upload and post invoice information, download and post transaction data, retrieve credit information on their customer base and submit credit request for new customers.

Online Purchase Orders

Online purchase orders will be created by buyers, transmitted to sellers, and linked by LSQ to the invoices submitted by sellers. Invoices will be stored in LSQ's system, together with all associated purchase order and tracking information. Clients and customers will be able to access these invoices and review all associated documents. In addition, tracking information will hyperlink to each shipping company's web based tracking system, enabling both client and customer to electronically review shipping documents and proof of deliveries. Electronic transaction processing will serve to greatly improve participants' operating efficiencies.

Online Customer Payments

While customers will always have an opportunity to call LSQ Account Managers, they will also be able to review their account statement on-line. They will have the ability to "point and click" on invoices they want to pay. The dollar value of the selected invoices will subtotal on the page, and the customer will be given an opportunity to initiate an online payment. If the customer does not bank with any of LSQ's FIs, profiling technologies may ask them if they want to open an account with a FI partner, or make them aware of promotional offers available through the FIs. If the customer chooses a different online bank, all information will be stored in a protected environment for future online payments. In addition, once the customer's online bank information is entered (whether the bank is LSQ's partner or not), the customer will be able to hyperlink to its bank statement to confirm sufficient bank balances for the online payment. Once an online payment has taken place, customers and clients will be provided with all appropriate documentation.

Online Dispute Resolution

Customers will be able to "point and click" on invoices they want to dispute. Any dispute will trigger several actions. First, the disputed amount will be subtracted from any availability (amounts clients have available for advances) the client has at that time. Second, the disputed invoice will be flagged as a dispute on the customer's account, and will not be included in any due or past due balance for that customer. Third, the client will receive an email notification of a customer dispute. The email will include a hyperlink to a disputed invoice field on LSQ's website where the client will be able to review the dispute. The client will then have an opportunity to respond to the dispute. If the client authorizes a credit, or does not acknowledge the dispute, an email will be sent to the customer notifying it that the dispute has been reviewed. The notice will include a hyperlink to the dispute page detailing the client response. If the client authorized a credit, the customer will have an opportunity to accept and approve the credit. If the customer approves the credit, the invoice will move back into the client's availability, as well as onto the customer's account statement, less the credit amount. If the invoice is due, the customer will then be given an opportunity to pay the invoice electronically, as described above, or indicate the intended timing and manner of payment.

8. Addressing the Core Value Propositions of Online Commerce

Strategic Positioning for Online Commerce

The proposed business model uniquely positions LSQ to deliver the expected benefits of online commerce to its customers:

- Empowers business managers with real time customer information in a customized format
- Creates process efficiencies
- Reduces transaction costs
- Provides insights into customer behaviors
- Generates mass customization marketing opportunities
- Supports brand loyalty and customer retention

The ability to enable online term (net 30 and 60) sales is critical to small business online B2B transaction growth. Most B2B buyers demand terms and until such time as small businesses are comfortable offering trade credit to online buyers, small business B2B online commerce will remain a minor percentage of total B2B transaction volume. Through strategic alliances with major B2B commerce sites, LSQ will provide B2B customers data hosting and receivable and credit management services. These offerings, critical to the success of an online marketing strategy, will provide the following:

- Enable sales through trade credit evaluations and/or financing opportunities
- Create liquidity in the MarketPlace
- Attract more sellers to participating B2B portals.

Online commerce portals, augmented by LSQ's products and services, will enjoy increased stickiness.

LSQ's business model recognizes and addresses the two most common concerns expressed by small companies (as indicated by a 1999 SBA study) selling in an online community; Web security and lack of knowledge regarding new customers. LSQ ' web enabled applications will provide a safe and secure environment in which to conduct business.

9. Market Opportunity

Market Niche Opportunity

Industry fragmentation and limited access to data, perceived as ongoing constraints in the small business marketplace, create significant inefficiencies for business owners. In their pursuit of reliable and timely credit information on potential customers, managers must utilize traditional tools (ie telephone, fax and voice mail) to cross markets and industries. Additionally, substantial manual resources are dedicated to credit evaluation, processing, reconciling, and analyzing transactions and resolving buyer disputes. LSQ will fill a need in the marketplace by facilitating and/or conducting these activities for its clients, thereby alleviating internal workload constraints and freeing business managers and owners from unnecessary distractions.

LSQ's Role in the B2B supply chain and marketplace

LSQ's MarketPlace platform facilitates sales and provides market liquidity by aggregating customer credit information and using custom analytics to remove credit bottlenecks while improving trading partner confidences. The greater the market confidence, the greater the speed and level of market activity. While facilitating e-commerce transactions through robust credit architecture, LSQ's MarketPlace platform enables all participants (buyer/seller/financial institution) to efficiently manage, track, process and reconcile online and off-line commercial transactions. Since supply chain participants will be able to complete tasks with greater efficiency and accuracy, management resources will be freed to focus on core competencies.

The innovation and convenience available through LSQ unlocks market and business opportunities inaccessible to operations that remain at the mercy of the telephone and fax. Through LSQ, online and off-line trading partners will see their market opportunities increase, financial earning rise and fragmentation erode.

Market Sizing for Small Business Factoring and LSQ's Opportunity

According to the SBA Office of Advocacy, in 1996 over 23.2MM business tax returns were filed. Of these, 1.6MM were partnerships and 16.6MM were sole proprietorships with no employees. Slightly fewer than six million entities employed between 1 and 100 employees and 91.6M entities employed greater than100 employees.

In 1995, the most recent year detailed analysis is available of employer firms, there were approximately 4.6MM employer firms with fewer than 100 employees. As this information is somewhat dated, and given the growth of this market, it should be considered a relatively conservative estimate. This information is useful, however, in establishing a baseline for analytical purposes. The revenue composition by **firm size** is detailed below:

Number of Employees	1-4	5-9	10-19	20-99	Total
Firms	2,560	981	576	469	4,586
Employment	5,395	6,440	7,734	18,422	37,991
Revenue	$790B	$778B	$965B	$2.68T	$5.21T
Average revenue Per firm	$307	$793	$1,675	$5,710	

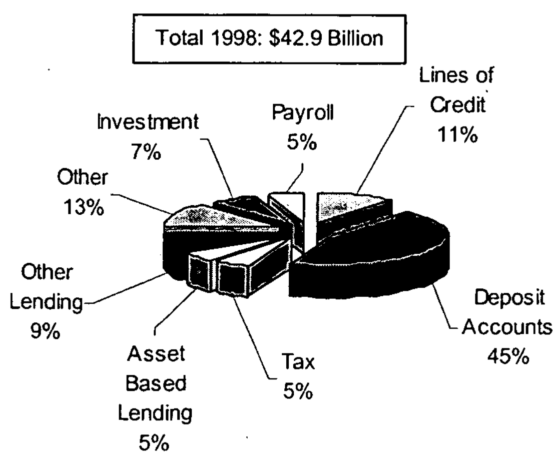
* All data in (000's) except revenue

It should be further noted that the $5.2T in annual revenues reported by these companies does not reflect the sales activities of 16.6MM sole proprietorships, a subset of which would also be considered viable LSQ clients.

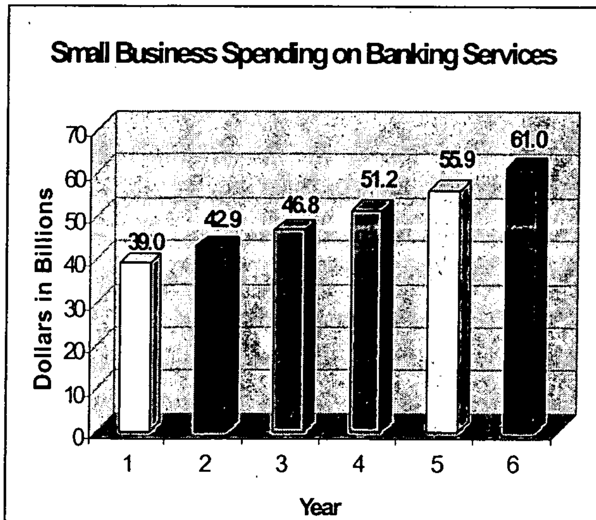
Based on the above, the total potential population of prospects is conservatively estimated at roughly 4,600,000 companies with cumulative revenues of $5.2 trillion. However focusing on those industries most likely to utilizing factoring services reduces the total population of potential clients to just over 830,000, as depicted below:

Industries Suitable for Factoring	# of firms	Revenues ($MM)
Textile	3,910	$7,924
Apparel	17,948	$26,910
Furniture	8,970	$12,113
Paper and Allied Products	3,226	$12,630
Printing, Publishing and Allied Industries	52,965	$51,975
Rubber & Miscellaneous Plastic Products	10,711	$26,866
Stone, Clay, Glass & Concrete Products	10,273	$19,158
Fabricated Metal Products	27,879	$55,634
Machinery & Computer Equipment	45,385	$65,465
Electrical Equipment and Components	11,550	$24,864
Measuring, Analyzing, Controlling Instruments	8,257	$16,164
Miscellaneous Manufacturing Industries	14,825	$3,867
Motor Freight Transportation	90,229	$71,589
Communications	14,289	$21,557
Wholesale Trade – Durable	226,491	$1,013,370
Building Materials, Hardware, Garden Supplies	44,862	$60,613
Business Services	240,438	$145,080
TOTAL	832,208	$1,635,779

The potential market for factoring services may be further refined based on historical access to and usage of financing products. The charts below illustrate, by products and services type, historical small business spending patterns for financial services. This provides some indication of the relationship between working capital financing obtained by small businesses relative to all other bank services purchased.



Source: BAI/McKinsey Meridian

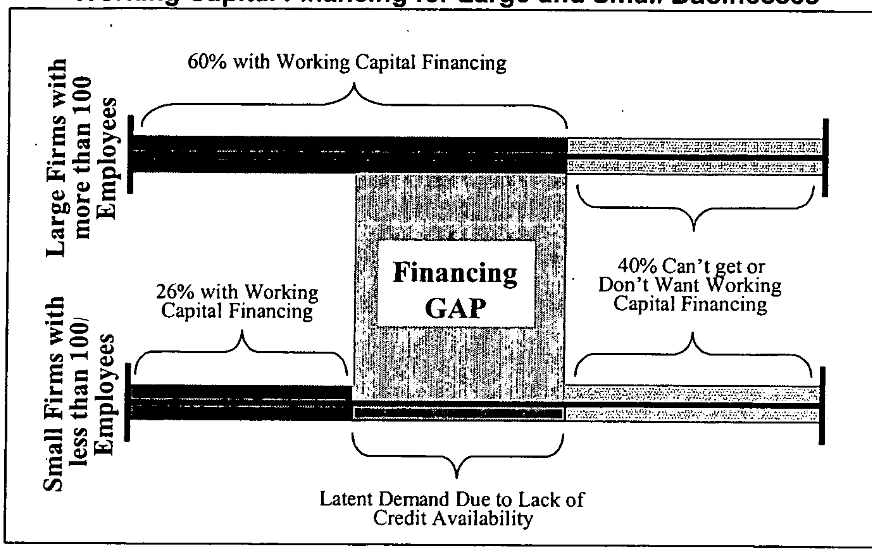


Source: BAI/McKinsey Meridian Research Study - 1998

Deriving product usage based on the historical allocation of small business spending on bank services suggests that working capital financing (lines of credit and asset based lending) is available to approximately 15% of small businesses. Data from the SBA, however, indicates that this figure is actually closer to 26%, as compared to 60% for large companies. It can be inferred from this data that the potential population of small businesses without working capital financing may range from 74% to 85% of totals. It can also be assumed that some percentage of those companies without working capital financing would desire such financing if it were made available to them.

The SBA data noted above reveals that a financing gap exists between large and small businesses relative to access of working capital financing.

Working Capital Financing for Large and Small Businesses



This gap, representing 34% of the total small business population, is thought to be indicative of the limited working capital financing available at the lower end of the small business spectrum. This phenomenon may occur when either the asset/sales size and/or financial condition forces a business outside of traditional lending parameters. LSQ estimates that slightly more than one half this business segment (or 20% of the total population) will demonstrate both the need and creditworthiness necessary to be considered a viable prospect.

The following analysis utilizes these factors to derive market size and LSQ's projected market penetration for factoring prospects:

LSQ Market Sizing and Penetration Analysis				
		Projected Market Penetration		
Segments of Marketplace	**# Companies**	**18 Mos.**	**30 Mos.**	**42 Mos.**
Broad Market Sizing				
Gross Universe of Small Businesses w/less than 100 employees	4,586,000			
Less:				
Businesses/Industries not typically receptive to Factoring*	(3,756,000)			
Net Universe of Small Businesses Receptive to Factoring	830,000			
Subset of Population without Working Capital Financing				
Estimated Range:				
Low End Estimate at 74% (Based on SBA Stats)	614,200			
High End Estimate at 85% (Based on BAI Study)	705,500			
Latent Demand for Working Capital Financing Est. @ 20%				
Estimated Range:				
Low End Estimate at 74% (Based on SBA Stats)	122,840	0.57%	1.68%	2.88%
High End Estimate at 85% (Based on BAI Study)	141,100	0.50%	1.46%	2.51%

- Based on Market Sizing Analysis - Section 9 – Approximately 80%)

This analysis results in a highly conservative assessment of LSQ's potential factoring marketplace ranging from 120,000 to 140,000 small businesses. Per the Business Case (See Section X), this suggests that LSQ will achieve .5% and 2.50% market penetration rates in months 18 and 48, respectively.

In an effort to validate this analytical exercise, data was extracted from a 1999 report from the U.S. Small Business Administration that profiled the 57 largest Small Bank Business Lenders in the United States against all other Bank Small Business Lenders.

1999 SBA Data:		# of S.B. Loans
Aggregate Statistics for all U.S. Small Bus. Lenders*		8,316,448
Base Assumptions:		**# Customers**
Average of 2.0 loans per Relationship	# of Customers in Universe	4,158,224
20% of Customers in Favorable Industries	# Customer Receptive to Factoring	831,645
20% of Customers with Working Capital Financing	# Customers lacking W/C Financing	665,316
20% Latent Demand	# Customers Seeking W/C Financing	133,063

** Total # loans calculated based on the 57 largest Bank Holding Companies' (BHCs) loans less than $1 million ($171,679 billion in outstandings and 3,587,334 loans) combined with the $226,321billion and 4,729,114 small business loans held by all other U.S. Banks (# of loans for all other banks derived using the average tranaction size of $47.9M noted by the BHCs).*

This market sizing exercise, while less exact than the initial assessment, supports the validity of the results previously presented.

It must be emphasized that this overall market analysis specifically addresses the factoring component of LSQ's Business Model. Market size, as it related to the broader based services of trade credit facilitation and transaction management services, must be considered within the context of the entire Small Business marketplace of over 22MM potential clients/customers.

10. Viability of Distribution Channels

As the business model suggests, the primary method for attracting customers to LSQ differs from traditional marketing process. Clients will come to LSQ through one of three channels:

- Financial institution partner credit declinations (direct pipelines of referrals)
- B2B Referral Applications
- Prospecting clients' buying communities
- Other (Website traffic/Internet searches/Offline applications)

Financial Partner Declination Referrals

LSQ is in initial discussions with eleven regional and super-regional banks regarding LSQ's MarketPlace concept and the banks' interest in referring declinations. Each of these financial partners was chosen based on the following criteria:

- Centralized small business credit underwriting process to facilitate declined deal flows
- Demonstrated commitment small business banking
- Aggressive e-strategy that is complemented by the products of LSQ
- Willingness and ability to provide potential clients to LSQ electronically
- Non-competitive relative to small business factoring

Financial partners will receive a referral fee based on the volume of receivables purchased from each client. Utilizing figures derived from the SBA Bank Holding Company Survey (June 1999), we estimate that eleven financial institutions identified as the best partner candidates will generate as many as 16,908 leads per month for LSQ. LSQ's Business Case only assumes that 5 financial partners will participate by the end of the first year and only 9 partners will be in place by month 39. In addition, LSQ's model assumes no more than 5,400 leads a month by the end of year 3.

B2B and E-Commerce Channel

A national survey conducted by BankOne in July of 1999 estimated that small businesses with fewer than 10 employees and annual revenues up to $1 million account for nearly 80 percent of all U.S. companies. It was also found that nearly 50% of these companies now have Internet access, and about 20 percent have established their own Website. Currently, almost 6% of small business owners report they bank through the Internet, with nearly all of these businesses listing "convenience" and "ease" as the reasons they bank online. Of small business owners who do not currently bank online, 7% report they plan to begin banking online in the next 12 months.

An internal survey of LSQ Funding's client base further supports these findings, as roughly 85% report that they either have or are developing their own Website. While only 30% of LSQF's existing client base currently bank online, fully 79% indicated a strong interest in accessing their LSQ account information online, and of that subset, 93% indicated that they would access their information daily.

Online B-2-B transactions are projected at roughly $2 trillion in 2003, with one recent estimate soaring to $3.95 trillion. This explosive growth springs from an estimated $43 billion worth of online B-2-B transactions in 1998 and "virtually zero in 1990." The Gartner Group has forecast a more staggering number, estimating that e-commerce by firms and industries in 2004 will exceed $7.29 trillion.

Prospecting Clients' Buying Communities

LSQ's MarketPlace environment offers access to significant amounts of information with respect to its clients' customers. In the normal course of business, acting on behalf of its clients (Sellers), LSQ will be in constant contact with these companies (Buyers), facilitating sales through either trade credit underwriting services or actual receivable financing and will continue to interact with these companies

throughout the receivable collection process. This provides LSQ a unique opportunity to access and target market these businesses as prospective clients.

In an effort to gauge the viability and magnitude of this potential secondary market, a high level analysis has been constructed, as follows:

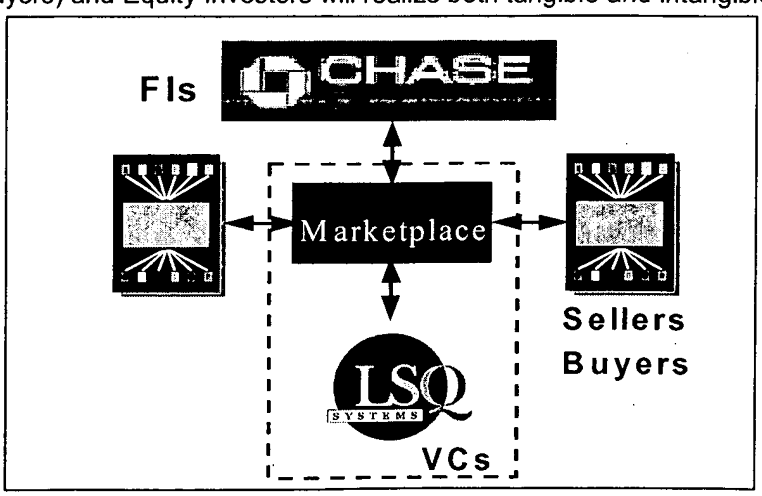
Clients' Buyer Communities - Opportunity for LSQ Market Penetration

	Year 1	Year 2	Year 3
Assumptions:			
Average # Customers per Client	100	100	100
Estimated Buyer Community Client Acquisition Rate	0.25%	0.25%	0.25%
# Active Clients through Declination Referrals	608	1,654	3,048
Calculations:			
# New Clients through Declination Referrals	608		
# New Clients from Buyer Communities	-		
Universe of Customers	60,800		
# New Clients from Buyer Communities - Year 1	**152**		
# New Clients through Declination Referrals		1,046	
# New Clients from Buyer Communities - Year 1		152	
Universe of New Customers		119,800	
# New Clients from Buyer Communities - Year 2		**300**	
# New Clients through Declination Referrals			1,394
# Clients from Buyer Communities - Year 2			300
Universe of New Customers			169,350
# New Clients from Buyer Communities - Year 3			**423**
Total # Clients Obtained through Buyer Communities	**152**	**300**	**423**
Cummulative Total New Clients - 3 Years			**875**

Based on the projected volume of new clients generated from declination referrals, LSQ will have access to almost 350,000 businesses (including both Sellers and Buyers) by the end of year 3. From this universe of prospects, it is conservatively estimated that LSQ will convert .25%, or 875 businesses, to new clients over the 3-year period. It must be noted, however, that management has elected to **exclude** these figures in the Business Case Financial Projections, given the uncertainty surrounding actual verses estimated acquisition rates.

11. Value Proposition

Value will be created for each participant in the LSQ network. Financial institutions, Clients (Sellers), Customers (Buyers) and Equity Investors will realize both tangible and intangible benefits.



Each of the four primary MarketPlace participants enjoys a unique set of benefits that creates value for that entity:

Venture Capitalists (Equity Partners)

- The net present value of future cash flows for the initial 3 year period is $47.4MM (using a 25% discount rate)
- Clearly articulated exit strategy realizable in 3 years
- Positive cashflows are achieved and sustained by month 12

Financial Institutions (Declination Provider)

- Enhanced customer relationships and stickiness
- Increased Brand exposure to declined customers and their buying communities
- Ability to fulfill customers' needs through an alternative delivery channel
- Ability to implement targeted real time B2B marketing campaigns
- Generates fee and non-interest income
- Improved referral process automation and tracking
- Diversifies and leverages existing e-commerce initiatives

Sellers (Participants that Sell Invoices to LSQ)

- Access to working capital financing
- Improved credit risk management through expert trade credit underwriting
- Improved transaction liquidity
- Improved operational efficiency
- Reduced transaction costs
- Improved customer profiling through MarketPlace tool-set

Buyers (Participants that have had Invoices Issued to them)GOOD

- Cost and time savings through online payment, invoice dispute enablement and settlement mechanism
- Increased efficiency
- Reduced transaction costs
- Improvement in transaction liquidity
- Increased purchasing power through expanded ability to obtain trade credit
- Improved transactional reporting and communications with Seller
- Access to LSQ MarketPlace content

12. Industry Analysis

The factoring of accounts receivable is a well-established business-to-business transaction financing. Until recently, factoring has predominantly been provided by commercial finance companies and bank owned subsidiaries. These factors primarily target the apparel, textiles and furniture companies with annual revenues in excess of $10MM. Over the past ten years small business factoring has seen explosive growth.

The Factoring Industry

The maturing of the old-line factoring industry, as evidenced by slow industry growth, high fixed costs, high exit barriers and intense rivalry among its participants, creates significant strategic challenge for long term growth and profitability. These challenges, coupled with the limited cost for clients to shop or switch factors, has left the old-line factors competing primarily on price and focused on industry consolidation. While consolidation has helped many factors achieve greater economies of scale, demand has remained constant for old-line factors over the past few years. According to the Commercial Finance Association (CFA), factored volume increased only 5.02% in 1998, to $76.28B. This increase is only slightly greater than the 4.3% growth rate of GDP, as reported by the Bureau of Economics.

Small Business Factoring

Unlike the old-line factoring industry, the number of small business factors has exploded over the past ten years. Small business factors service customers with annual revenues of $500M to $10MM, without any specific focus on industry segment. While there is no available data on the highly fragmented small business factoring community, CFA reports that the number of small finance companies, as a percentage of its total membership, has grown from 25% in 1988 to over 52% today.

Small business factors have successfully expanded services to the transportation, business services, wholesale trade and light manufacturing industries. While the small business economy's explosive growth has helped create a market for small business factoring, the small business factoring market exists because it is filling a need in the marketplace.

Over the past five years, as credit scoring among major financial institutions has become vogue, the working capital financing gap has continued to grow. Banks have turned to credit scoring as a way to improve internal efficiencies, since the overhead structure and operating efficiencies limit the ability to profitably service the small business community. Underwriting costs are reduced through the elimination of traditional underwriting methods (financial statement analysis, credit committees, etc.). Monitoring costs are reduced through the elimination of covenants and loan maturities that require loans to be reviewed and renewed. Profitability, as a result of credit scoring methodologies, has increased markedly.

The credit scoring models used by most major banks accomplish the above by heavily favoring fully amortizing term loans to companies with solid and financially strong owners. Credit scoring models designed to create internal efficiency, without deterioration in credit quality, place a negative weight on non-amortizing loans secured by liquid collateral (lines of credit). Loans that are not fully amortizing are usually approved only if the company has an ability to amortize the loan over a short period of time (usually two to three years), and if the owners have very strong personal credit. The above criteria have severely limited most major banks' ability to provide small businesses with lines of credit over $50M and less than $1MM (many banks have chosen to credit score all loans of less than $1MM). The market for credit lines over $50M is the primary target of most small business factors.

Fragmentation

Distinctive Solutions, the leading provider of factoring software to the small business factoring market, estimates that there are 700 to 900 small business factoring companies across the United States. The majority of these companies are privately held, with limited resources, technology, industry knowledge and experience. It is management's belief that no single company holds greater than a 5% market share in the non-traditional, small business factoring industry. No major financial service company has established a presence in the small business factoring industry. We feel that this distribution of market share and limited technology have created an opportunity to seize a large market share by offering a efficient, automated financing solution to clients at the time of the purchase.

13. Competitive Landscape

While there is no current provider in the market for online, small business factoring, we recognize that competitive threats exist on many levels. Potential competitors range from money center banks to current small business factors. The power of the MarketPlace will differentiate LSQ, and the first-mover advantage will enable LSQ to initially gain a majority of the online factoring market.

Super Regional and Money Center Banks

Super regional banks and money center banks pose a competitive threat for LSQ. These companies operate in a highly competitive industry and are constantly pursuing new business opportunities. If any of these companies aggressively pursued factoring, they would be able to offer products and services similar to those of LSQ. According to the Tower Group, due to the low dollar value and high-risk nature of most small business lending, this market is not particularly attractive to banks. Although these institutions have the resources available, developing the type of infrastructure required for online competition would take funding away from other, more profitable ventures. Given the limited resources directed to small business lending, it is improbable that banks would pursue online factoring as a major initiative.

Offline Small Business Factors

Traditional off line factoring companies offer personalized service for clients that are accustomed to a close relationship with their financing providers. The success of LSQ will be driven by its ability to demonstrate to clients that the benefits of the new business model provide more benefits than the current offline environment. According to Meridian Research, the volume of small business online financial transactions is expected to grow at a rate of 31%, faster than any other customer segment. The LSQ business model is tailored to meet the needs of changing small business behaviors to capture significant market share.

Credit Card Processors

Credit card processors such as First Data Resources (FDR) or Total Systems Services have the technological infrastructure necessary to create an environment to support online factoring. These companies, in partnership with banks or other finance companies, could combine to present a competitive risk to LSQ. As stated above, the investment in technology for this type of product may not be economically feasible for banks or smaller finance companies. A large processor could spread the development cost among several clients and become a significant player in the industry. However, ultimate success is predicated on the specialized credit skills associated with factoring, a core competency not typically found in traditional financial institutions.

Non-traditional Competition

We anticipate that the internet will change the competitive landscape in factoring just as it has in other industries. Non-traditional competitors will more than likely appear in the near term. Examples of this type of competitor could be:

- B2B credit facilitators such as LiveCapital or PrimeStreet, which match lenders with clients (auction environment)
- Consortiums of finance companies that may want enter the business but do not have the capital required to build the infrastructure
- Mortgage processing companies or other organizations that currently process significant volumes of data that is often non-standard in format and content.

Current Online Competition

Several online lenders and lending facilitators exist in the market today and may pose a threat to LSQ. None of the organizations currently offer the same financing product or functionality, but could easily adapt current products or processes. Characteristics of these competitors are compared to LSQ in the table below:

Competitive Considerations	LSQ	Town Services, Inc	MyReceivables, Inc	Private Business Inc.	Live Capital .com	E-Credit.com	21st Capital Corp.	Liberty Finance Co	Aero Fund Financial	GE Capital Finance	CIT
Service Standards											
Same Day Approval Turnaround	●					●					
On-Line Access - Acct. Info.	●	■	■					■		✸	■
Customer G/L System Interface	●	●									
Profiling & Target Marketing - Viral Marketing	●		■								
Strong B2B Supply Chain Coverage	●				●	●					●
Referral Sources											
B2B Commerce Sites	●				●	●					●
2nd & 3rd Tier Banks	●				●	●					
First Tier Banks	●				●	●					
Services Offered											
Customer Communication Enablement	●										
Customized Reporting - Client	●		■								
Customized Statement Generation	●	■	■								
E-Bill Presentment & Payment	●	●	●						✸		
Customized Underwriting -Expert System	●				●	●					
Buyer/Seller Dispute Resolution Support	●					×	×		●	×	×
Factoring	●		●				●	●	●	●	●
Loan/Lease Outbound Referrals	●	●		●	●	●					
Trade Credit Facilitation	●	■	■		●	●		×	×		×
A/R Management & Collections	●	■	■	■		■	×	×	×	×	×
Accessibility											
Turn Key - No System Criteria	●				●	◆	●	●	●	●	◆
Target Market											
Small Business Focus	●	●	●	●	●	●		●	●		
Broad Industry Focus	●	●	●	●	●	●	●	●	●		●

Legend: *Prepared as of 4/30/00*

- ● *E-Enabled and/or Electronic Data Interface*
- ✸ *Pending implementation - Proposed*
- ■ *Availble On-Line but not real time*
- × *Capability offered in an Off-Line Mode*
- ◆ *Some services require proprietary software*

14. Position and Pricing

Financing Clients

Historically, small businesses have viewed factoring as a financing vehicle of last resort. Driving this perception are the low quality of service, excessive rates and limited expertise of most small business factors. LSQ's web-based product will automate routine processes, provide unmatched customer service, and offer interest rates only slightly higher than bank financing. This

combination will make factoring a viable and attractive product. LSQ's financing clients will have the following characteristics:

- Annual sales of $500M to $10MM
- Products or services sold to other businesses on credit terms
- Buyers are invoiced for completed services or delivered products
- Unable to obtain any, or sufficient, bank working capital financing
- Growing companies with limited capital
- Not involved in 3rd party billing (medical practices, hospitals, etc)

While client specific pricing will be negotiated based on market factors, operational costs and risk profile, the below table demonstrates projected pricing tiers, based on receivable volume.

Monthly Volume of Receivables	Discount Rate	Interest Rate on Advances
Less than $100M	3.29%	Prime + 3%
$100M to $300M	1.88%	Prime + 2%
More than $300M	1.00%	Prime + 1%

Receivable Management Clients

Receivable management clients (no financing) will generally be small businesses seeking to reduce costs, improve efficiencies, outsource non-core tasks and improve transaction liquidity. These clients will be required to generate at least $200M per month in receivables. Like financing clients, these clients will not be involved in third party billing (medical practices, hospitals, etc.), and will not be involved in industries subject to frequent disputes (accounting, legal, construction).

Pricing for receivable management clients will be more favorable to the client, as no credit risk will be incurred by LSQ.

Monthly Volume of Receivables	Discount Rate
$200M - $300M	1.50%
More than $300M	1.00%

Advertising

According to Media Metrix, business to business advertising is the fastest growing segment in web-based marketing. LSQ will sell advertising space to financial partners, clients, customers and other B2B parties. Advertising rates are based on the most recent available rates for search engine or portal sites. LSQ will charge a premium of 30% for the ability to target specific segments. Advertising rates and expected traffic are as follows:

Advertising rates		*Projected website traffic and revenue*		
Impressions per month	Price per 1000 impressions per month		Average Impressions per Month	Annual Revenue
1 – 250,000	$37.70	Year 1	32,783	146,000
250,001 – 500,000	$35.10	Year 2	142,081	829,000
> 500,000	$34.60	Year 3	297,735	1,825,000

Other Revenue Opportunities

Revenue may be realized from other sources, as delineated below, during the first three years of operation. **However, due to the level of uncertainty, projections for these revenue types have not been included in the cash flow statements**. This revenue may have a significant impact on future cash flows.

Alliance partner commissions

LSQ will sell advertising to companies other than the financial institution partners and will receive commissions for any products purchased through these sites if the transaction originated at the LSQ portal.

Buyers that become sellers

LSQ data warehousing and analysis functionality will enable LSQ to analyze payment patterns and buying behaviors to determine when buyers experience cash flow difficulties. This information will be used to market factoring, receivables management, and trade credit underwriting services to non-client participants in the LSQ Marketplace. The superior customer service, improved efficiencies, reduced transaction costs and best of breed information delivery experienced by Marketplace participants will be assist LSQ in converting participants into clients. The table below demonstrates the impact of adding buyers to the seller network.

	Clients added Annually			**Additional Revenue $(000s)**			
% of Buyers converted to Sellers	**Year 1**	**Year 2**	**Year 3**	**Year 1**	**Year 2**	**Year 3**	**Total**
0.10%	60	112	154	3,122	5,828	8,013	16,962
0.20%	122	224	306	6,348	11,655	15,922	33,925
0.30%	182	336	460	9,470	17,483	23,935	50,887
0.40%	244	448	614	12,696	23,310	31,948	67,954
0.50%	304	562	768	15,818	29,242	39,961	85,020

15. Business Case

Illustrative projections for LSQ's expected cash flows appear on the following pages. These projections are based on conservative estimates of incoming client volume, market rates for similar off-line products, and historic turnover and loss rates. Detailed financial estimates are presented in Appendix A of this document. All financial projections are subject to the following assumptions:

- These projections have been prepared by LSQ based on knowledge of the industry and reasonable expectations of the future state and have not been reviewed by an independent accountant.
- Some key factors were derived from or confirmed by referencing publicly available material or consultants. Material was also supplied by employees of LSQ Funding Group, L.C., a firm with considerable experience in the small business financing industry.
- The actual results may vary significantly from those reflected in these projections, and these figures are not intended to be taken as a guarantee of particular results.

Key performance measures and pricing for the base case projections are presented in the table below. Sensitivity to changes in the primary revenue drivers is presented in Appendix A.

Base Case Key Performance

	End of Year 1	End of Year 2	End of Year 3
Number of Banks	4	8	9
Monthly Referrals per Bank	600		
% of Referrals that become Prospects	15%		
Deals Closed as % of Prospects	15%		

Base Case Pricing

Financing Services	**Purchases less than 100M**	**Purchases 100M to 300M**	**Purchases greater than 300M**
Discount Rate	3.29%	1.88%	1.00%
Interest Rate	Prime + 3	Prime + 2%	Prime + 1
Receivable Management Services	**Purchases 100M to 300M**	**Purchases greater than 300M**	
Discount Rate	1.50%	1.00%	
Advertising	**Cost per 1000 Impressions**		
	$37.70		

Financial Estimate Highlights

- NPV of cash flows through the first three years of operations- $47.4MM
- Time before positive cash flow stream will be achieved and sustained: 12 months.
- Loss rates estimated to be 0.125% of annual purchase volume.
- Incoming cash flows will begin in the fourth month of the first year.
- Cash flows are discounted at 25% for the NPV calculation

LSQ Cash Flow Summary ($000s)

		Development Period	Operations Year 1	Operations Year 2	Operations Year 3		Total
Incoming		Months 1-3	Months 4-15	Months 16-27	Months 28-39		
	Discount Income	0	7,014	35,213	76,129		118,356
	Interest	0	4,057	21,973	46,352		72,382
	Advertising	0	146	829	1,825		2,799
	Wire transfer	0	37	213	481		731
	Receivable Management	0	1,103	5,537	11,970		18,609
	Total	**0**	**12,357**	**63,765**	**136,757**		**212,877**
Outgoing							
	Staff	344	5,426	9,071	12,539		27,035
	Rent and Admin	396	3,927	4,264	5,582		13,773
	Bank referral fees	0	351	1,761	3,806		5,918
	Interest	0	2,037	12,833	27,938		42,808
	IT Development	0	280	480	480		1,240
	Other	0	2,809	9,173	17,682		29,664
	Total	**740**	**14,830**	**37,582**	**68,027**		**120,438**
Free Cash Flow Before Taxes		**-740**	**-2,472**	**26,183**	**68,729**		**91,699**
						NPV	47,400

Cash flows for the first three years of operations reflect the gradual increase in the number of banks, which drives the total referrals and receivable purchases. The projections show the number of banks climbing to a total of 9 by the end of year 3 of operations.

Initial estimates of the number of referrals per bank were derived from data obtained from SBA statistics. This average of 600 referrals per month per bank does not include figures from the two largest institutions reviewed, each of which are projected to supply up to 4,000 referrals per month.

Capital Requirements and Potential Sources

The success of LSQ depends on the availability of an adequate capital base to support the underlying costs associated with the initialization and operating of the business. The initial capital required for this initiative is estimated at $15.4MM for development and $25MM for working capital. As a result, the following sources of funding have been considered:

Private Investors

$1.4MM in Capital from private investors has been raised for the planning phase of the initiative and is sufficient to support the company through the receipt of development capital.

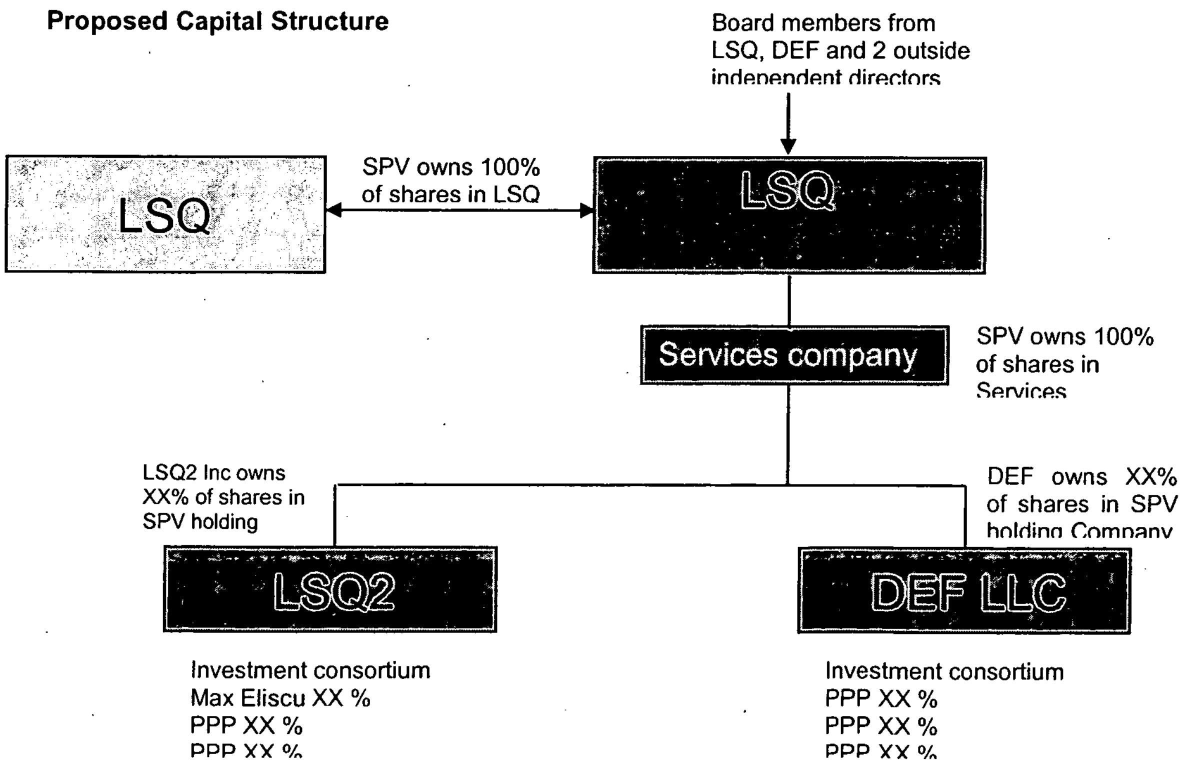
Venture Capital

Venture capitalists have invested more into e-commerce initiatives in the past few years than any other area. Based on LSQ's self sustaining business model, limited initial investment and strong cash flows, LSQ is expected to be viewed as an attractive investment opportunity.

Financial Institution Partners

As was displayed in the business model and value proposition sections of this document, financial institution partners stand to benefit considerably from this initiative. We believe investments by these financial partners are a viable alternative to traditional venture capital firms.

Proposed Capital Structure



16. Technology Overview

LSQ, with the assistance of KPMG Consulting, L.L.C., is building a flexible, scalable web-based platform that will enable the company to process the growing number of transactions with maximum efficiency at the lowest cost possible. The diagram below reflects the preliminary application architecture footprint required for LSQ's operations. All external access to the network will be secured by a firewall and digital certificates, and participants in the network will have unique user names, passwords to protect client and customer data.

LSQ's technology platform is a multi-tier architecture, which consists of a presentation layer (external and internal user interface) data integration and scalability layer (data aggregation and management) and a back-end (application packages and data storage). This component-driven design provides the powerful tools to interact with participants regardless of participant architecture. To maximize the operating efficiency and speed, extensive use of new markup technologies such as XML will be used throughout the design.

Tier 1: Presentation

Financial institutions, buyers, and sellers will have state of the art tools available when accessing the LSQ portal. For processing core business transactions, buyers and sellers will access a customized page that will display all standard features and alerts indicating any immediate action that is required. The user interface layer will enable clients to seamlessly access account information, download transactions to their accounting software, or act on any disputes or customer service requests. All participants in the process will realize the value of the system with limited knowledge of technology and no investment requirement.

Financial institutions will have the choice of private-labeled, co-branded, or non-branded participation in the MarketPlace. For private label clients, the presentation to buyers and sellers will be identical to their financial institution's current web branding appearance, along with links to other banking products or services. Additionally, the financial institution will have assigned advertising space available to promote products that the client does not currently use. Regardless of the exposure level chosen, all financial institutions will have exclusive access to the clients that they refer, as well as the customers of those clients and all their subsequent trading partners. Other B2B companies will be able to advertise, but no other financial institutions will have access to the community created by each FI alliance partners.

Using LSQ's robust profiling architecture (LSQ is currently performing vendor analyses) financial institutions will have the ability to choose from or define multiple variables that will enable marketing to all participants in their branded LSQ Marketplace, on a 1:1 basis, improving bank perception and reducing acquisition costs. The value of the profiling and marketing opportunities available to strategic alliance partners are increased both as a result of the unique information available to LSQ through its receivable management and trade credit underwriting functionality, and through the exponential impact which occurs with the addition of each new referral, and its buying community.

Tier 2: Data Integration and Scalability

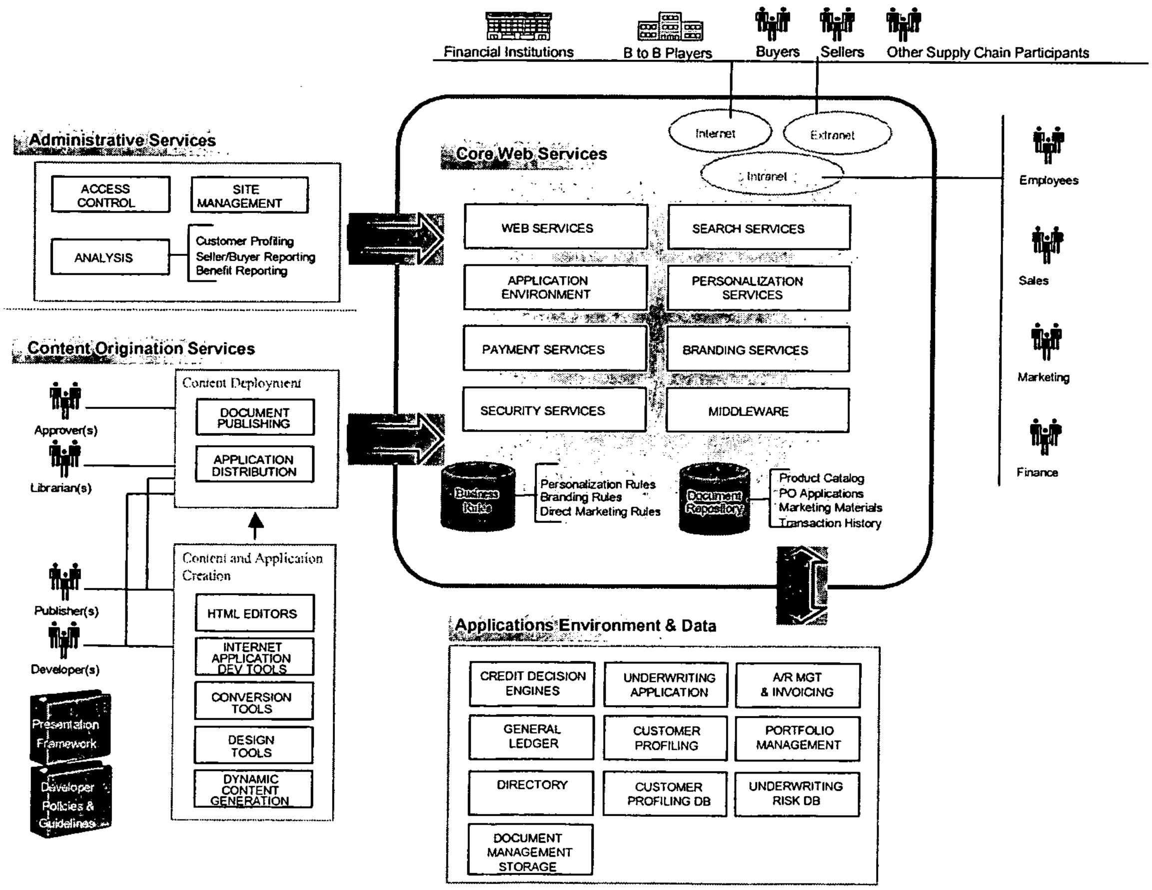
The robust data aggregation and management layer will qualify and move data through the network to the application systems and storage facilities. This critical intermediate step will also segregate and flag all critical data for the LSQ MarketPlace. The design of this stage will enable the network to efficiently handle the growth that will occur during the start-up phase, while providing a high level of efficiency as volumes normalize. LSQ's focus on volume and efficient scalability will drive a low cost operating environment and will allow LSQ to maintain flexibility in a price sensitive environment.

Tier 3: Back End

LSQ's technology architecture will be driven by an application systems environment that will provide receivable management, collections, financial, and reporting applications. These applications will be chosen from existing vendors during the planning and analysis phase of the initiative. In an effort to minimize customization and maximize stability, strong emphasis will be placed on proven systems with open architecture. Several applications will be developed, including an expert system that will manage trade credit and client underwriting, and active selling (profiling) interface toolset.

Data storage will also be a critical component of the architecture, as the storage and retrieval of data will drive the value propositions to all participants in the LSQ MarketPlace. Creating a robust storage facility will provide the foundation for the active selling service. Initial plans call for an Oracle or SQL Server database to accommodate multiple simultaneous users without sacrificing storage capacity.

LSQ Application Architecture



In designing the architecture, only mature and manageable technologies will be employed to support a platform that is reliable, flexible, and cost efficient. Architectural standards include the following:

Architectural Element	Standard
Application Servers	Windows NT server
Office Automation Servers	Windows NT
Workstations	Windows 98
Office Automation	Office 2000 Outlook 2000
Network	TCP/IP LAN
Web Servers	IIS
Web Browser	IE
Security	Analysis in process

17. Risks

The underlying business model supports a definitive market opportunity for LSQ. However, there are a number of risks that must be taken into consideration and addressed in order to achieve the desired return on investment.

Risks to financial institution partners

Business risk		Contingency / Mitigation strategy
• Damage to FI reputation	• Damage to a FI reputation from an event occurring between the parties or	• FI will review and approve final product offering prior to implementation. XYZ will allow FI to perform service quality audit assessments on referred relationships and will work with the FI management team to continue and build on relationship development opportunities
• ROI fails to meet FI requirements	• Costs and or income are different than expected, moving ROI below	• Initial technical assessment and due diligence will determine the approximate cost of the IT investment. FI are the source of declinations, and are therefore the primary and the most important driver of non-interest income, "volume". XYZ will work closely with FI to develop approximate success rates of declinations based on experience and review
• Partnerships and alliances	• XYZ are unable to enter into key partnerships and alliances to develop CRM and business linkages	• Key partnerships and alliances will be finalized, and agreements in place prior to implementation. XYZ will enter into alliances only after considerable due diligence and will have contingency plans to avoid work stoppage due to alliance issues.

Risks to Investors

Business risk	Description	Contingency / Mitigation strategy
• ROE fails to meet DEF requirements	• Return on equity fails to meet the level anticipated in the business case	• The key driver of ROE is income flow obtained from financial institutions declinations, Heads of agreements have been signed prior to equity contribution, therefore providing greater cashflow certainty
• Failure of IT implementation	• Risk that project exceeds time and budget and / or functionality requirements	• Detailed project plan, costing and technological assessment will be completed prior to implementation, supported and developed by global consulting partner KPMG
• DEF cannot exit from investment	• DEF have difficulty realizing the equity value in XYZ	• Three alternative exit strategies are in place to support an exit by DEF, these will be refined and finalized during the first 2 years of operation to maximize shareholder value

Key Implementation Risks

Implementation risks	Description	Contingency / Mitigation strategy
• IT implementation	• Risk that project is not delivered on time	• A detailed project plan and technological assessment will be developed and agreed to with lead contractor. • The process will be iterative to enable the implementation team to reprioritize tasks to ensure timely delivery to market. • XYZ will only use proven and existing technology architecture. • Delay (cost) clauses will be put in place to minimize risk of time overrun
• IT implementation	• Risk that project budget is exceeded, therefore putting completion at risk	• A detailed project costing will be developed linked to a fixed price contract with lead contractor and software suppliers.
• IT implementation	• Risk that the functionality of LSQ does not meet the FI expectations e.g. capability, security, interface etc	• A detailed matrix outlining key functionality characteristics, detailed use-cases, use of existing proven technologies where functionality can be viewed and demonstrated will provide comfort as to ability to provide required functionality.
• Staff capabilities	• Risk that staff will not be available (in a tight labor market) to manage and run LSQ	• Senior management team now in place and operating, leverage of existing staff base will occur (from LSQ) if recruitment is not possible, new staff will be provided with incentives through vested options to stay and grow business

18. Implementation Plan

Implementation of the infrastructure and business activities will be accomplished in four phases. Critical milestones for each phase are listed below:

Phase I – Planning and Design (8-10 weeks) $600,000

The goal of Phase I will be to produce detail design specifications and implementation plans for all components of the architecture.

Determine "Buy or Build" strategy for the following systems

- A/R management
- Process tracking
- Customer profiling
- External data capture
- General ledger
- Underwriting
- Fraud screening
- Portfolio management
- Document management

Further define services to be provided

- Information provider interface
- Internal and external web interfaces
- Dispute management
- Directory
- Application interconnectivity

Infrastructure design

- Security
- Web servers
- Email
- System management
- Capacity planning
- Network architecture

Phase II – Development and Implementation (12-15 weeks) $6,500,000

In Phase II, all mission-critical systems will be developed or purchased and implemented. These systems include the infrastructure components and all systems required for processing core business functions for LSQ. Planned activities for Phase II are:

Develop and/or implement application systems

- A/R management
- External data capture
- General ledger
- Underwriting (LSQ financing clients)

Develop and implement services

- Information provider interface
- Web sites

- Dispute management system
- Process tracking
- Document management
- Customer profiling

Implement components of infrastructure

- Security
- Web servers
- Email
- Systems management
- Network

Phase III – Development and Implementation (12 weeks) $5,000,000

In Phase III, the remaining components will be developed and implemented. These systems, while critical to the business model, are not required to be in place in the first three months of operation. The components implemented in this phase are highly customized to LSQ products and processes, and include:

Develop and/or implement application systems

- Underwriting (trade credit and client underwriting modules)
- Enhanced client fraud screening
- Portfolio management

Develop and implement services

- Expanded document management system
- Customer profiling enhancements

Pilot (concurrent with Phases II & III) $4,127,000

A pilot phase will begin during Phase II and continue through the end of the development process. During this phase, LSQ will begin accepting declinations from the financial institution partners and gradually increase the capacity and incoming volume as staff is hired and trained and various parts of the IT infrastructure are brought online. The pilot will include 2-3 financial institutions and will last until all systems functionality is complete and fully tested.

Appendix A – Financial Details

The following financial projections are based on reasonable assumptions relating to the various business offerings of LSQ. Several of the critical factors were derived from or confirmed using publicly available material or consultants. Other factors were supplied by LSQ Funding Group, L.C. personnel who have a considerable amount of experience in the small business financing industry.

Market Size and Client Volume

The overall projections of market size and client volume were calculated by estimating the volume of declined small business loans among a list of US banks found in the Small Business Administration. These figures were estimated using the historical small business loan growth rates to determine the projected application volumes. To maintain conservatism, banks were assumed to approve 75% of loan applications, and LSQ is assumed to approve 2% of referrals. The following banks were chosen as the initial partner targets. Bank One and US Bancorp were omitted from the estimates used in the financial projections to avoid skewing the results.

	Projected Application Volume	**Approval Rate**	**Projected Referrals to LSQ**	**Annual Deals Closed by LSQ**
Bank One	210,982	75%	52,745	686
BankBoston*	3,071	75%	768	10
Chase	77,597	75%	19,399	252
First Union	14,622	75%	3,656	48
Fleet*	12,032	75%	3,008	39
Huntington	17,792	75%	4,448	58
Keycorp	32,012	75%	8,003	104
Lasalle	14,135	75%	3,534	46
PNC	5,400	75%	1,350	18
Regions	60,000	75%	15,000	195
Suntrust	76,735	75%	19,184	249
US Bancorp	201,524	75%	50,381	655
Wachovia	36,564	75%	9,141	119
Zions	49,154	75%	12,289	160
	Total Annual Volume		202,905	2,639

*Fleet and BankBoston merged in 1999

Average monthly volume and the projected composition of the portfolio were derived based on current data from LSQ Funding. These figures will be used for all revenue projections.

Purchase Size Segment	**Projected % of portfolio**	**Projected % of clients**	**Average Monthly Purchase Volume**
< 100,000	13%	43%	50,388
100,000 - 300,000	38%	40%	158,333
300,000 +	49%	17%	480,392

Revenue Drivers

Discount income

LSQ will charge financing clients a fee at the time of purchase for receivables management processing. This fee revenue was estimated using the following formula for all three pricing tiers.

Formula	*Example for tier 1 – monthly purchases* less than $100,000
Number of active strategic alliance partners	7 banks
x avg number of monthly referrals	1,208 per institution
x % of referrals closed	1.3%
x avg dollar volume of monthly purchases	$50,388
x projected % of clients	43%
x discount rate	3.29% for tier 1 clients
= discount revenue	= $78,360.97

Interest

Interest will be charged to clients that request advances on the purchase of their receivables. Interest income estimates are based on the following assumptions:

- Net funds employed will be 76% of total available funds
- Pricing is tiered based on monthly purchase volume

Monthly Volume of Receivables	Interest Rate on Advances
Less than $100M	Prime + 3%
$100M to $300M	Prime + 2%
More than $300M	Prime + 1%

Transaction-based fees

LSQ will earn $3 per transaction for all funds transfers. Activity from previous factoring experience indicates that the volume of these transactions will average 4 transfers per client per month.

Receivables Management

Receivable management clients will be charged a fee using the same method as is used for the discount fee. Only clients that sell $200M in receivables per month will be eligible for the service, and the average monthly volumes are estimated to be $250M for clients with volumes under $300M.

Monthly Volume of Receivables	Discount Rate
$200M - $300M	1.50%
More than $300M	1.00%

Initial Expenses

Projected start-up expenses will be driven by consulting fees, IT development, and initial operational costs (training, facilities, relocation, etc). Estimates are based on a high level workshop conducted by KPMG Consulting.

Development Costs		
Phase I -	Planning and Design:	600
Phase II -	Development and Implementation I:	5,000
	Hardware:	1,500
Phase III -	Development and Implementation II:	5,000
Initial operating costs		4,127
	Total Initial Expenses	15,627

Development costs were funded entirely by LSQ II, L.C. and represent the initial equity investment in LSQ. These costs are not included in the cash flow statements.

Ongoing Expenses

Annual salaries and staffing levels are estimated to be as follows:

	Annual Salary	Number of staff at the end of year 3
Credit underwriting	52,000	51
Account Managers	56,000	47
Collections	30,000	53
Management	150,000	8
Accounting/Admin	50,000	15
IT	65,000	15
Screeners	50,000	27
Closers	41,000	3
Sales	80,000	2

- Referral fees will be paid to financial institution partners at a rate of 5% of Discount Revenue
- Telecommunication and equipment charges were calculated using historic data from LSQ Funding. All equipment will be leased.
- Operations will be based in Orlando, FL. Occupancy expenses were estimated based on the current real estate market conditions in the city and are represented on a gross basis, including utilities.
- Interest rates used in modeling are based on the current prime and LIBOR rates as of April 20, 2000.
- Professional fees (legal, accounting, consulting) are estimated to be $200M per month for ongoing support and do not include initial costs.

Projected Cash Flows

The following pages show cash flows for the first three years that include the planning phase, in which no incoming cash flows will be realized. All financial projections are subject to the following assumptions:

- These projections have been prepared by LSQ based on knowledge of the industry and reasonable expectations of the future state and have not been reviewed by an independent accountant.
- Some key factors were derived from or confirmed by referencing publicly available material or consultants. Material was also supplied by employees of LSQ Funding Group, L.C., a firm with considerable experience in the small business financing industry.
- The actual results may vary significantly from those reflected in these projections, and these figures are not intended to be taken as a guarantee of particular results.
- Revenues will be derived from the following sources.

  Discount income from the purchase of receivables
  Advertising
  Interest earned
  Transaction-based fees

Other revenue sources may be identified through B2B transactions on the LSQ portal, but have not been considered for purposes of projections. In addition, LSQ has not included any revenue allocation to account for the expected migration from Marketplace participant to client.

- The discount rate used for NPV calculations is 25%, which represents the estimated return requirements of investors.
- Capital structure funding based on 80% debt and 20% equity

Sensitivity of cash flows

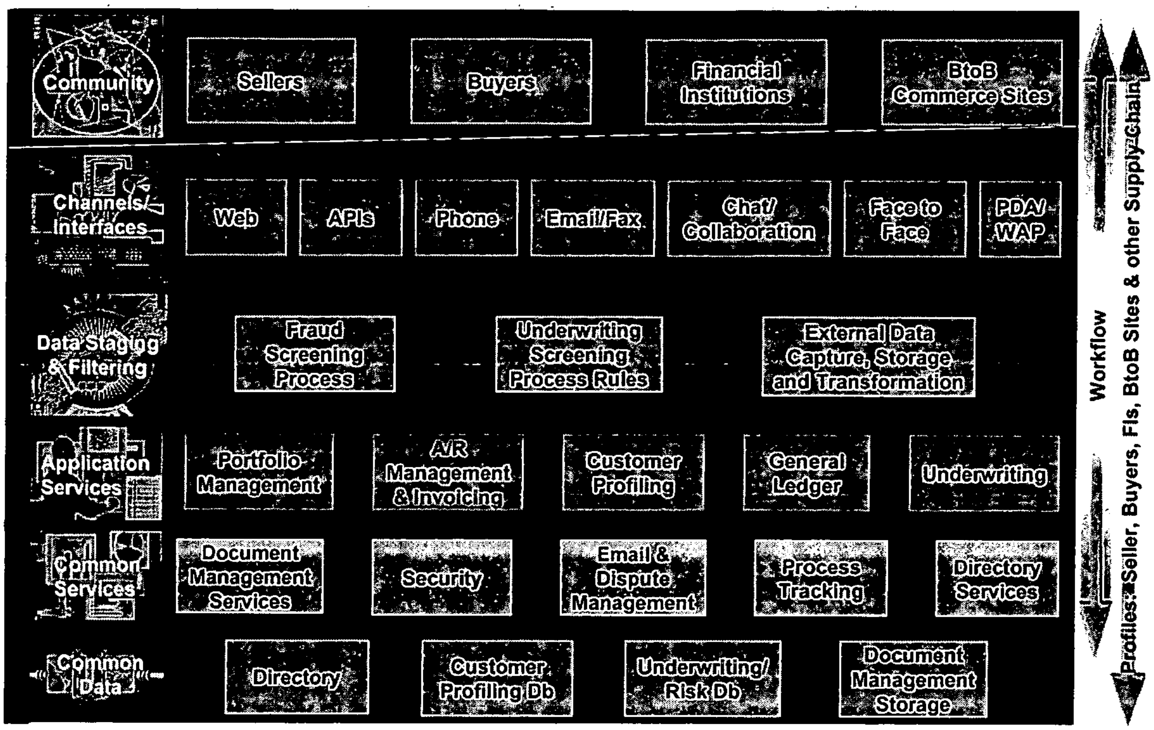
The table below shows sensitivity of the financial results if there is a 15% variance in one of the key revenue drivers. As would be expected, changes in the average monthly referral volume and the number of banks have the most impact the net present value (NPV) and return on equity (ROE).

Key Financial Results		Values Increased					
Variable Changed	Base Case	**Number of Banks**	**Referrals**	**Pricing**	**Number of Banks**	**Referrals**	**Pricing**
NPV of future cash flows discounted at 25% ($000s)	47,395	55,919	57,919	56,725	34,384	44,133	38,065
Free cash flows before taxes ($000s)							
Development period and year 1	(3,212)	(1,578)	(2,162)	(2,213)	(4,895)	(4,262)	(4,212)
Year 2	26,183	30,794	31,791	31,201	18,164	20,574	21,165
Year 3	68,729	77,416	81,168	79,577	55,443	56,293	57,880
Average annualized ROE							
Development period and year 1	(15%)	(5%)	(9%)	(9%)	(25%)	(21%)	(21%)
Year 2	162%	196%	201%	198%	108%	124%	128%
Year 3	426%	492%	514%	504%	330%	340%	350%
Base Case and High Case Values							
Number of Banks (end of year)							
Year 1	4	5			3		
Year 2	8	9			7		
Year 3	9	10			8		
Monthly Referrals per Bank	600		690			510	
Discount Rate							
Purchases less than 100M	3.29%			3.78%			2.80%
Purchases 100M to 300M	1.88%			2.16%			1.60%
Purchases greater than 300M	1.00%			1.15%			0.85%

Appendix B – IT Architecture

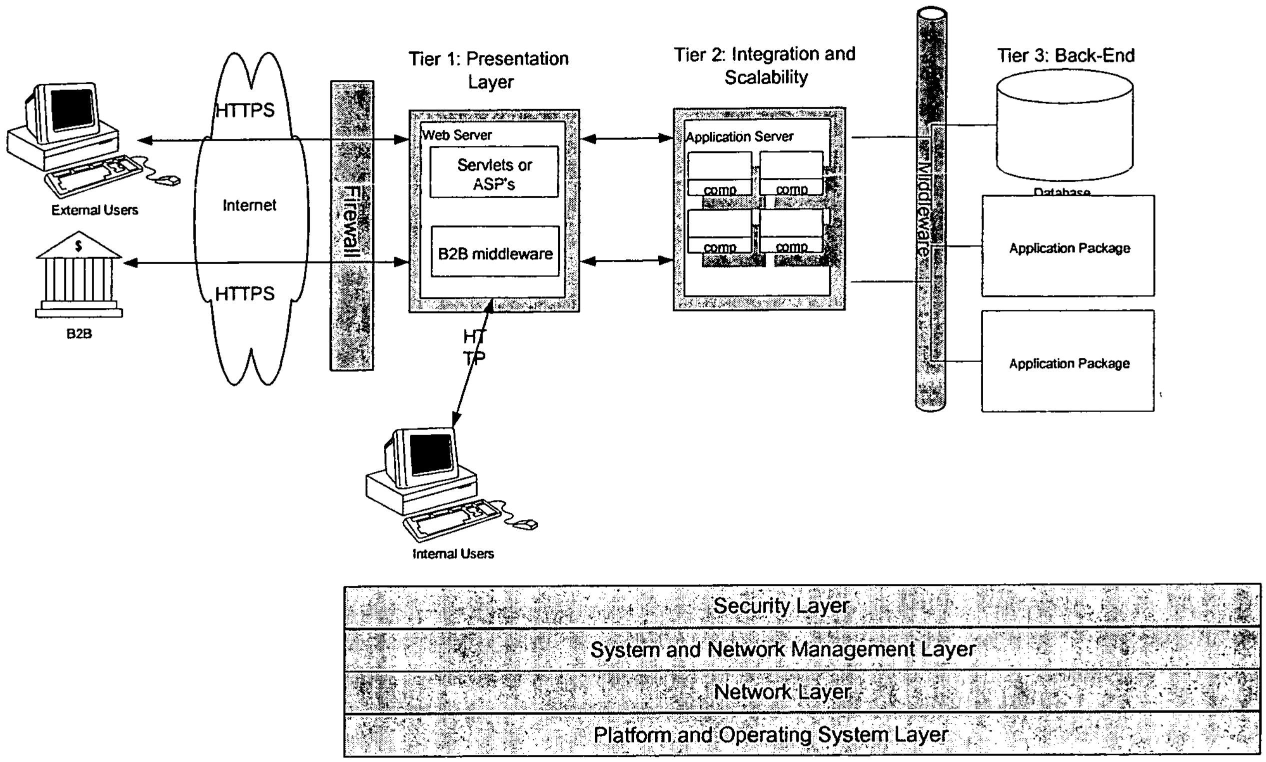
Application Architecture Footprint

The following diagram depicts a preliminary Application Architecture Footprint defined using the Business Requirements, IT Requirements, Principles and Standards:



Application Infrastructure

The following diagram depicts a preliminary Application Infrastructure Footprint defined using the Business Requirements, IT Requirements, Principles and Standards:INSERT APPS INTO TIER 2

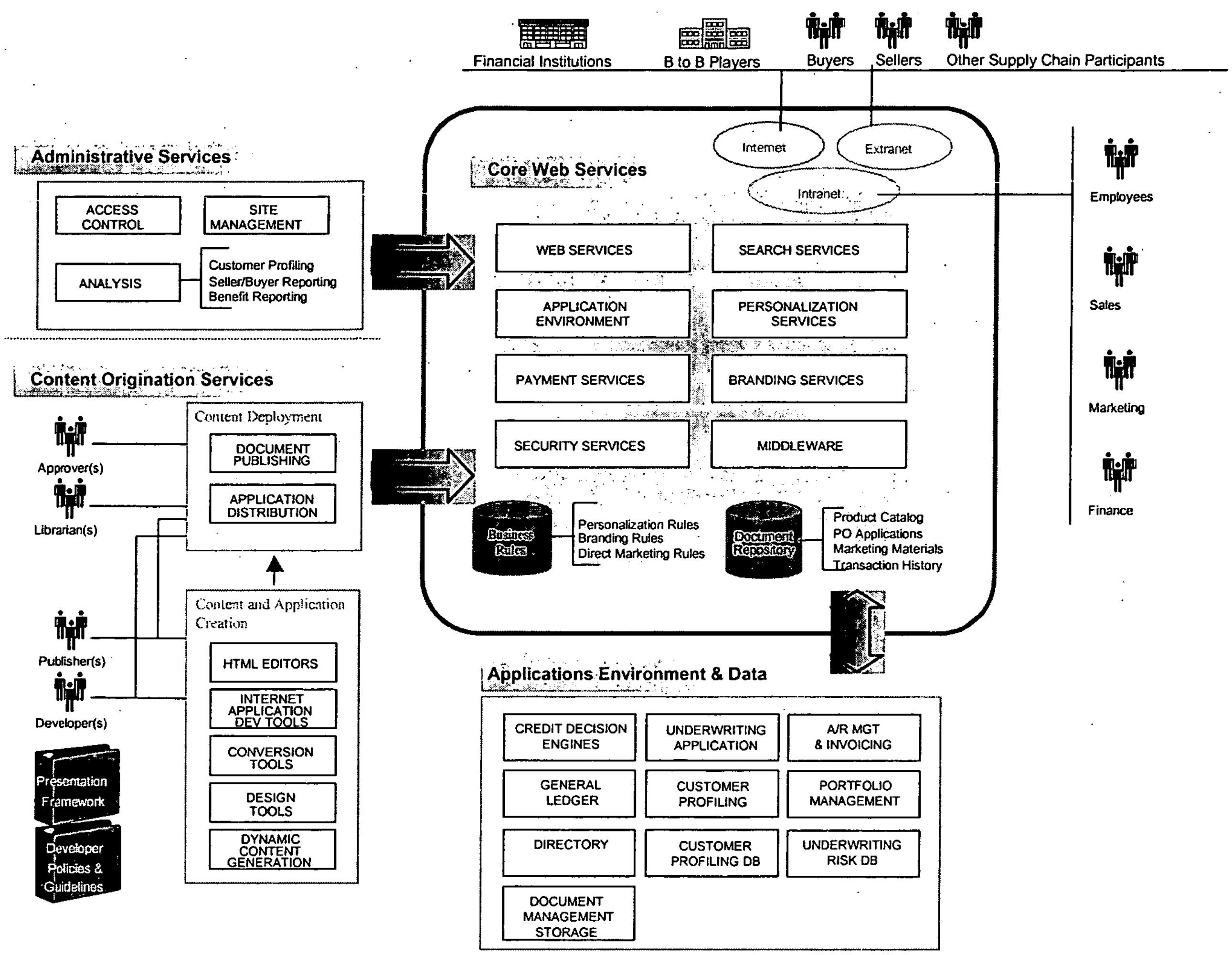


This infrastructure emphasizes the following characteristics:

- Connectivity to external users, business partners and internal users: this is provided by the Presentation Layer tier (Tier 1) of the architecture. This tier is implemented as a web server, and includes a number of components which provide user interface functions (implemented either as Servlets or Active Server Pages – ASPs) as well as B2B middleware services
- Integration and scalability: this is provided by Tier 2 of the architecture. This tier is implemented as an Application Server. It includes a number of components that provide the Common Services defined in the Application Architecture Footprint (see above). Those components also provide a common interface to the back-end services (vendor packages) and databases. A layer of middleware provides the connectivity between Tier 2 and the back end services and databases.
- Security
- Manageability

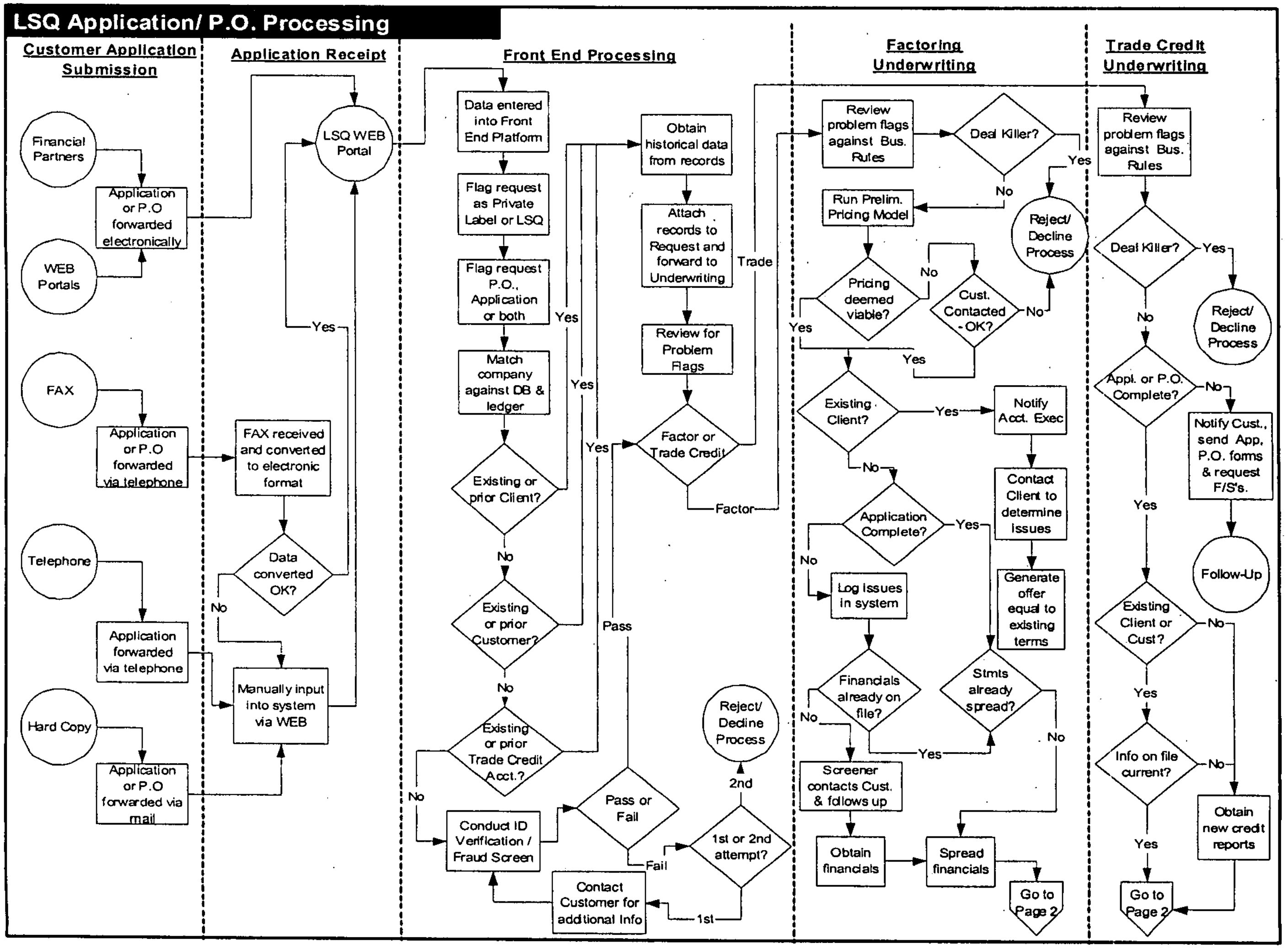
E-Commerce Reference Architecture

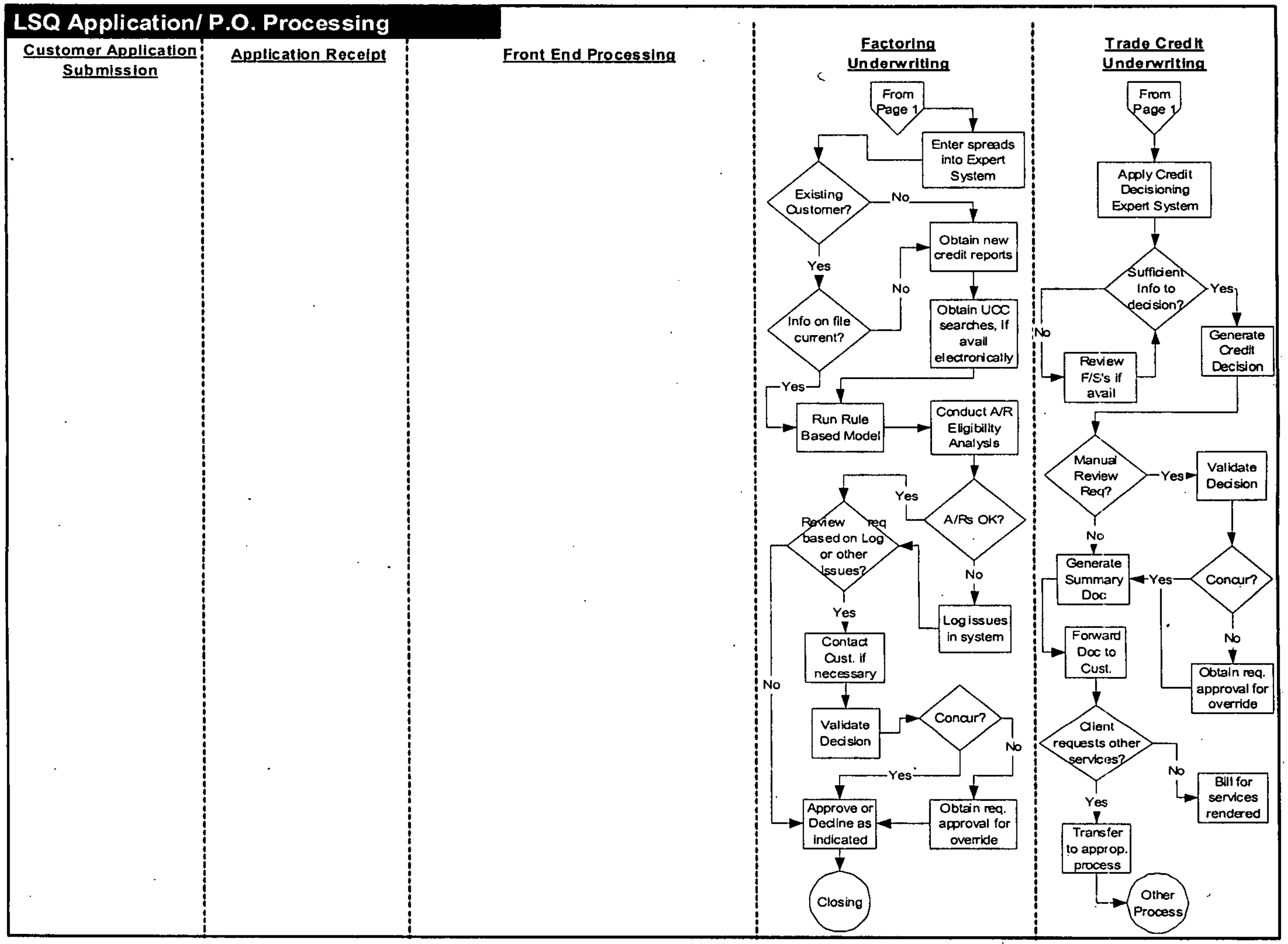
The following diagram depicts the services required to support LSQ's e-commerce business requirements. All components of the technology infrastructure will be accessed through the intra- extra- or internet.



Appendix C – LSQ Factoring Workflow Diagrams

The diagrams on the following pages depict the factoring process flows that will be implemented at LSQ. These processes are based on industry leading practices, and have been uniquely modified to address the type of volume expected at LSQ




LSQ Application/ P.O. Processing
Customer Application Submission
Application Receipt
Front End Processing
Factoring Underwriting
Trade Credit Underwriting
From Page 1
Enter spreads into Expert System
Existing Customer?
No
Yes
Obtain new credit reports
Info on file current?
Obtain UCC searches, if avail electronically
Run Rule Based Model
Conduct A/R Eligibility Analysis
A/Rs OK?
Review req based on Log or other issues?
Log issues in system
Contact Cust. if necessary
Validate Decision
Concur?
Approve or Decline as indicated
Obtain req. approval for override
Closing
From Page 1
Apply Credit Decisioning Expert System
Sufficient Info to decision?
Generate Credit Decision
Review F/S's if avail
Manual Review Req?
Validate Decision
Concur?
Generate Summary Doc
Forward Doc to Cust.
Obtain req. approval for override
Client requests other services?
Bill for services rendered
Transfer to approp. process
Other Process

Appendix D – Management Profiles

LSQ is led by a management team with significant Banking and Finance industry experience. The team brings together the necessary passion, knowledge and expertise to facilitate the successful implementation and positioning of LSQ as a market leader.

Maxwell Eliscu
President

Max Eliscu is President and Founder of LSQ Funding Group, L.C., a successful offline provider of small business receivable management, trade credit underwriting and factoring. Eliscu founded LSQ Funding Group in June of 1996, and has steered the company to consistent growth and profitability since inception. Annual growth and net income margins have exceeded 60% and 40%, respectively. Historical bad debt experience has been less than 3 basis points. Prior to founding LSQ Funding Group, Eliscu served as a Commercial Banking Officer with NationsBank, N.A. Eliscu is a graduate from Georgetown University.

XX YYY
Corporate Strategy and Development

XX YYY, an 18 year veteran of the banking industry, will leave his position as Senior Vice President, Credit Risk Management Executive (state), <<leading financial institution>> to join LSQ. In his last position at <<leading financial institution>>, YYY directly managed the <Regional> Lending Team with a portfolio of $2.5 billion. Roles and responsibilities included asset quality planning, strategic portfolio management, budgeting and expense control initiatives. National initiatives included Image management, Website Development Strategies, CRM Sales Management and Value Packaging. YYY has also served as <state> Commercial Sales Executive and <state> Credit Policy Executive. YYY is a graduate of the University of Oregon.

Paul Ellenbogen
Credit Policy

Paul Ellenbogen is Executive Vice President and Senior Credit Manager of LSQ Funding Group, L.C. He is a member of the initial management team of LSQ and is responsible for the design and structure of LSQ's operations and credit strategy. Ellenbogen's efforts at LSQ have driven LSQ's service quality, efficiency, profitability and low bad debt experience. Prior to joining LSQ, Ellenbogen was a Credit Manager with Barclays Commercial Corporation, supervising its Southwest Credit Center. While at Barclays, Ellenbogen served on its client review committee and was directly responsible for client and customer risk in its $500MM factoring portfolio. Ellenbogen is a graduate of Pace University.

XX YYY
Credit and Operations

XX YYY, a 35 year veteran of the traditional factoring industry, will leave his position as Vice President and Systems Coordinator at <leading national old-line factoring firm> to join LSQ. In his last position YYY's roles and responsibilities included developing the firms proprietary underwriting, collection and client trade credit model, as well as the development and supervising its client system support hotline. YYY is a graduate of the Monroe School of Business and the New York Institute of Credit.

Roger Allen
Credit Administration

Roger Allen is Senior Vice President, Sales and Marketing, of LSQ Funding Group, L.C. While at LSQ Allen has been responsible for all sales and marketing initiatives and has contributed to LSQ's 60% growth rate. Prior to joining LSQ, Allen was the Portfolio Manager for the Bank of America's small business factoring product. As Portfolio Manager, Allen was directly responsible for all client and customer relationships, portfolio credit risk and daily operations. Allen is a 10 year veteran of the traditional factoring industry. Allen is a graduate of Wofford College and has earned his MBA from the Stetson School of Business and Economics, at Mercer University.

BUSINESS DEFINITION DOCUMENT

LSQ II, LLC, dba LSQ Systems

Prepared by
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STATEMENT OF CONFIDENTIALITY

TABLE OF CONTENTS

1. Executive Summary

LSQ Systems ("LSQ"), a highly successful small business B2B infrastructure provider, data aggregator, and factoring company, founded in 1996, has redefined the traditional factoring model by developing unique Web based applications that address three primary business constraints faced by the $7.4 trillion small business marketplace; access to sufficient working capital financing, online trade credit (domestic) facilitation and e-commerce enablement. Through LSQ's proprietary Web MarketPlace, small businesses will be able to obtain working capital financing from LSQ (factoring), outsource receivable management operations and trade credit decisions, for both online **and** off-line commercial transactions, reconcile and pay bills, reduce transaction management costs, increase operational efficiencies and improve communication with customers/vendors.

Market Opportunity and Size

Industry fragmentation and limited access to data are perceived by industry participants as ongoing constraints in the small business marketplace. These constraints create significant inefficiencies for business owners in their pursuit of reliable and timely credit information on potential customers. Additionally, substantial manual resources must be dedicated to credit evaluation, processing, reconciling, and analyzing commercial transactions and resolving buyer disputes. LSQ will fill a need in the marketplace by facilitating and/or conducting these activities for its clients, thereby alleviating internal workload constraints and freeing business managers and owners from unnecessary distractions allowing them to focus on the core components of their business operations.

The small business marketplace comprises 16.7 million sole-proprietorships and 5.4 million employer firms. While aggregate revenue figures for sole proprietorships are not available, employer firms report annual revenues in excess of $7.4 trillion.[1] Of these employer firms, over 2.16MM (40%) were accessing the Internet in 1998, a 92% increase since 1996. This growth is expected to continue to accelerate, with total small business e-commerce earnings projected to reach $25 billion by 2002.[2] However, at $25 billion, small business e-commerce earnings will remain less than one half of one percent of **total** small business earnings; reinforcing the belief that e-commerce is in its infancy.

According to the Small Business Administration, only 26% (1.4MM) of all small firms have lines of credit, relative to 60% of all large firms.[4] This financing gap is indicative of the divergence between traditional banks' credit standards and small businesses' balance sheet realities. Faced with limited opportunities for traditional bank credit line financing, many small businesses are left with no choice but to turn to a fragmented and unsophisticated population of independent finance companies.

LSQ's Role in the B2B Supply Chain and Marketplace

LSQ's Internet based platform ("MarketPlace") will improve market liquidity by aggregating customer credit information and using custom analytics to remove trade credit (domestic) bottlenecks, improving trading partner confidences. The MarketPlace will enable all participants (Buyers / Sellers/ Financial Institutions / B2B sites) to efficiently manage, track, process and reconcile on-line **and** off-line commercial transactions. Since supply chain participants will be able to complete tasks with greater efficiency and accuracy, management resources will be freed to focus on core components of business operations.

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1 SBA, Office of Advocacy, Small Business Answer Card, 1998

2 Meridian Research Inc., Internet Banking for Small Business, January 1999

4 SBA, Office of Advocacy, Small Business Answer Card, 1998

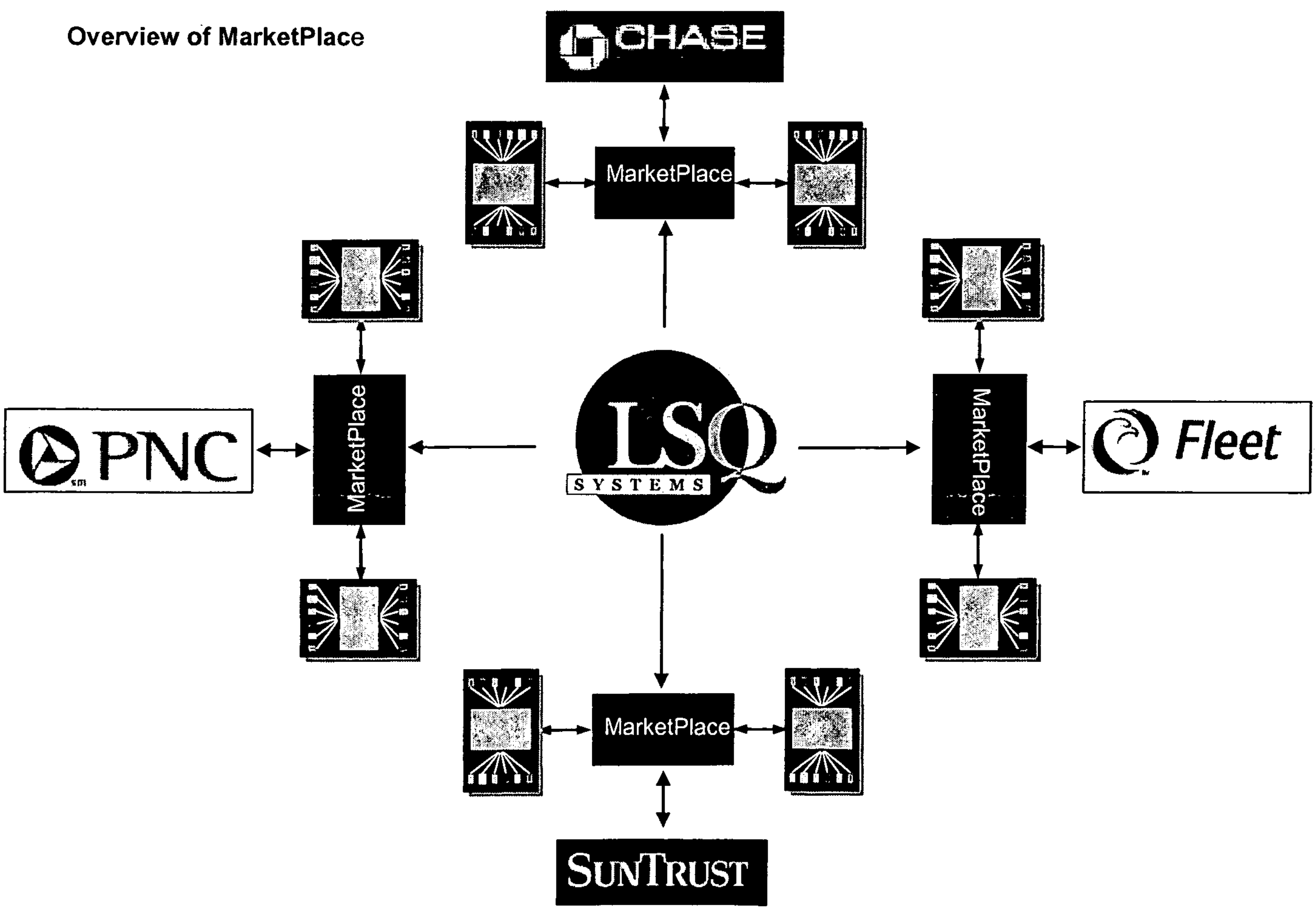
This innovation and convenience, facilitated through LSQ's MarketPlace, will unlock market and business opportunities inaccessible to operations that remain at the mercy of existing industry infrastructure. Through LSQ, online and off-line buyers and sellers, and other MarketPlace participants, will evidence better access to information, resulting in increased market opportunities and positive financial gains.

Proposed Distribution Channels

LSQ's MarketPlace environment will address a fundamental problem faced by most financial institutions' small business lending units, a 50% - 55% declination rate. These declination rates create enormous sunk costs for financial institutions, as they invest heavily to attract new prospects and existing customers, and then decline more than half of those that they attract ("FI"). Participation in LSQ's Web MarketPlace will enable FIs to offer their valued, but traditionally "unbankable", small business customers and prospects an alternative working capital solution. Through LSQ's e-enabled factoring model (working capital finance product) and the development of proprietary FI Marketplaces, FIs will be able to maintain their relationship with, and brand exposure to, declined customers, without assuming credit risk. In addition, due to LSQ's role as a small business factor and B2B trade enabler, the number of participants in each FI MarketPlace will increase exponentially with the addition of each referred client and its buying community. This exponential effect will dramatically expand each FI's reach and brand exposure beyond the referred prospect/customer, creating significant marketing and sales opportunities.

Participation with LSQ will also enable FIs to realize enhanced revenue streams and incremental sales opportunities. LSQ will pay referral fees to each FI based on a percentage of the revenues earned by LSQ. Incremental sales opportunities will be facilitated through the profiling tools housed in each FI MarketPlace. These profiling tools will enable each FI partner to seamlessly deliver a full complement of banking products and services to referred clients, and their customers. The targeted delivery of these products and services will increase FI product penetration and brand exposure, increasing the likelihood of declination migration back to the referring FI.

Overview of MarketPlace



By developing a MarketPlace for each FI, and flagging, tracking and segregating clients (sellers) by referral source, each FI will retain access and maintain brand exposure to its referred declined clients' (sellers) while gaining access and brand exposure to their buying communities. Each client and customer (buyer) entering each respective MarketPlace will view customized targeted Web pages, based on established profiles. These Web pages will offer FI content and product delivery specific to the needs of each MarketPlace participant. The only requirement for FI participation is the referral of customers and prospects that would have otherwise been declined.

LSQ is currently in discussions with four first tier financial institutions (FI). Due diligence is in progress with three of the four, and expected to begin with the remaining FI in August. An additional five first tier financial institutions are currently being targeted.

Summary Financial Projections

Through various distribution channels, LSQ expects its managed transaction volume to exceed $403MM within twelve months of its Series C Funding, with revenue projected at $11.6MM. By the end of 36 months, managed transaction volume is forecast to exceed $3.1B, with revenues and EBIT projected at $91.3MM and $62.00MM, respectively.

Capitalization Requirement

LSQ is seeking to raise $12.5MM in series C equity financing. This financing will support the development and implementation of LSQ's Web strategy. Additionally, LSQ will need to increase its existing $11MM CLN (LIBOR + 200), provided by SunTrust Bank, to $65MM. To support the increase in its CLN, LSQ will need to obtain $12MM in senior subordinated debt.

LSQ Management team

LSQ's focused management team possesses wide and varied experience across a number of top tier financial institutions in the banking and factoring industries. The leaders of LSQ have a proven track record of building and running finance companies, and are now seeking to expand and leverage their successful existing business model into the e-space. The team's extensive industry background gives it the necessary knowledge, experience, client network and expertise to facilitate the successful implementation of LSQ's MarketPlace environment.

2. Vision of LSQ

Mission Statement

LSQ will lead the e-space as an online small business infrastructure provider, data aggregator and factoring credit source. LSQ's Internet driven receivable management and financing platform will deliver "best of breed" products and services, transforming the way small businesses transact, manage and finance their on-line and off-line sales and credit needs.

3. Overview of LSQ's Business Model

Core Business Strategies

By web-enabling the core business capabilities and the expertise developed by LSQ, LSQ will provide considerable value to all participants in its MarketPlace, including sellers (LSQ clients), buyers (sellers' customers), FI participants and B2B alliance sites. LSQ will help small businesses by facilitating trade credit decisions, outsourcing receivable management operations, enabling electronic presentment and

payment of online and offline transactions, reducing transaction management costs, increasing efficiencies and providing working capital financing (factoring). These benefits will enable LSQ to become an integral component of both its small business sellers' and buyers' daily operations.

Through agreements and partnerships with FIs, LSQ will enable FIs to generate fee income from declination referrals while simultaneously preserving and strengthening valued relationships with customers and prospects deemed "unbankable" from a traditional credit perspective. The declined customers' financing needs will be addressed through a near-time, seamless process that ensures responsiveness while minimizing the sourcing bank's back-office involvement.

In addition, LSQ's branding strategies and interface capabilities will offer FIs unique marketing opportunities. Through the MarketPlace, each FI will retain access and gain brand exposure to its declined customers and their buying community (the network of customers that purchase from LSQ's clients). Furthermore, the marketing database and profiling tools imbedded in each MarketPlace will enable each FI to seamlessly deliver targeted products, services and content to each participant.

Through various distribution channels, LSQ expects its managed factoring transaction volume to exceed $403MM within twelve months of its Series C Funding, with revenue projected at $11.6MM. By the end of the third full year of operations, managed transaction volume is forecast to exceed $3.1B, with revenues and EBIT projected at $90.5MM and $61.4MM, respectively. Potential bad debts on purchased accounts, as a measure of credit quality, are forecast at 12.5 basis points, in line with average charge off rates for more traditional small business loan portfolios. This strong performance, despite the below average credit profiles associated with the targeted segment of the small business market, is achieved by continuing to utilize the proven underwriting and credit standards established by LSQ. In addition, LSQ will implement passive monitoring/early warning tools, concentration tracking, migration modeling, performance analytics, vintage curve analyses and other proactive portfolio management techniques to minimize credit quality erosion over time.

LSQ's strategic business plan is based on a strong fundamental cash flow driven business model which demonstrates positive cash flow within seven months of Series C funding.

4. Background of LSQ Systems

LSQ Systems, founded in 1996, is a privately owned "small business" factoring company based in Orlando, Florida. The core management team, comprised of three senior managers, represents over 50 years of experience in factoring and credit operations. For purposes of the proposed expansion, LSQ's core management is being augmented by the addition of two managers, who bring a combined 48 years of additional financial services experience. Customers range in size from $500M to $15MM in yearly revenues, and span a broad range of industries and geographical locations.

Superior service quality levels have enabled LSQ to maintain a stable and growing portfolio of clients. SunTrust Bank, who has maintained a banking and referral relationship with LSQ since 1997, states "LSQ Funding Group has consistently demonstrated their dedication and commitment to customer service and value. Our client and prospect referrals have consistently voiced appreciation for our referral to LSQ, and we plan to continue to work closely with them in the future. . ."

LSQ currently enjoys a steady deal flow of small business declination referrals through its informal relationships with several FIs, including SunTrust, SouthTrust, Bank of America, numerous community banks and a variety of regional professional service firms.

LSQ Financial Summary

LSQ Systems has completed two rounds of financing over the past four years. Series A (1996-$2.3MM) supports the company's existing operations. Series B (2000-$1.5MM) has supported the development of LSQ's web strategy, and will be sufficient to fund the completion of LSQ's IT design and architecture, led

by KPMG Consulting. LSQ currently maintains an $11MM credit line with SunTrust Bank, priced at LIBOR+200bp.

Average annual growth in invoice purchases, between 1997 and 1999 exceeded 62%, with yr 2000 purchases expected to grow 79%, to $100MM. Net profitability has averaged 37%, with a bad debt history of less than 3 basis points (substantially below industry averages). The company has consistently exceeded all financial and revenue projections (see Appendix for further detail on the history of LSQ).

5. Business Description and Model

Core Services

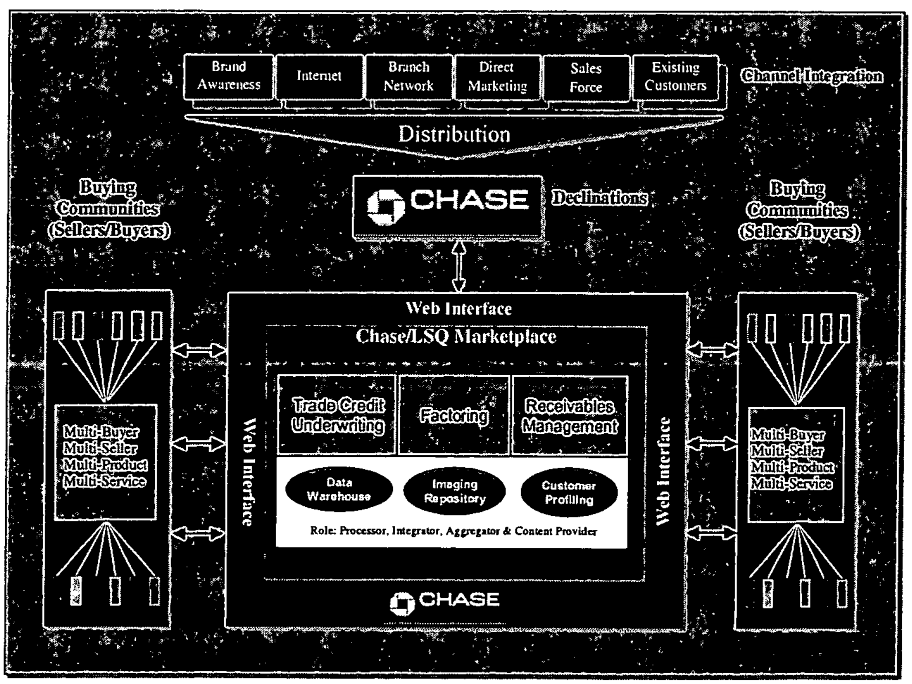
LSQ's core business consists of three integrated services, as follows:

- Working capital financing (factoring) to support growing small businesses (clients) which sell goods and services on trade credit terms to other businesses (customers)
- End-to-End transaction management for small business clients
- Trade credit underwriting and evaluation services for clients and/or other B2B sellers

As a natural by-product of the core services described above, LSQ has access to multiple layers of customer data and information. By aggregating customer-supplied data with external credit information and internal performance and behavioral pattern analyses, an extensive marketing data warehouse is created. Utilizing LSQ's robust profiling tools and product delivery toolset, FIs, B2B partners and third party advertisers will be able to seamlessly deliver targeted products, services and content to MarketPlace participants.

Business Model

LSQ's unique business model leverages open architecture Web based technology to deliver its key value propositions in a seamless and cost effective manner.



LSQ's core Web based product suite will be marketed as an Internet driven transaction management and finance product. The two will not be mutually exclusive. Small businesses will have the opportunity to utilize LSQ's transaction and receivable management products without pursuing LSQ's financing product. However, all finance customers will receive the benefit of LSQ's transaction and receivable management products.

LSQ Trade Credit Underwriting and Financing Products

LSQ offers working capital financing to small and middle market businesses ($500M-$15MM in annual revenue) that sell products and services to other businesses on credit terms. LSQ's credit sophistication and internal receivable management methodology enable it to provide working capital financing to clients who are not yet eligible for, and/or who do not have access to, sufficient bank credit. LSQ provides these businesses with working capital financing through the purchase of their receivables (advance rates generally range from 70%-90% of approved and eligible receivables). Aggregate credit exposures for client relationships ranges from $50M to $1.5MM. A real time trade credit-underwriting engine will be developed and utilized as a key component of LSQ's risk management architecture. This architecture will enable LSQ to process trade credit requests for financing clients in real or near real time. LSQ will leverage this infrastructure by offering trade credit underwriting and receivable management services to the larger small business audience of non-financing clients. LSQ will charge a transaction fee of between 1% and 3.3% for the management of receivables.

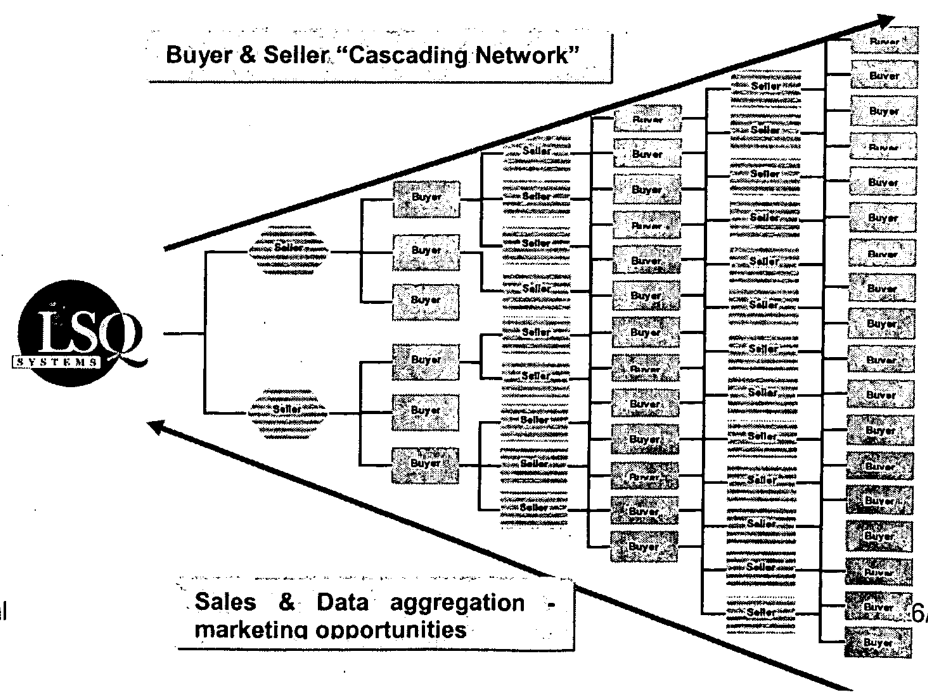
Transaction Management Services

LSQ offers clients, both financing and non-financing, transaction management services. These services include receivable and credit management, data hosting, transaction download/upload functionality and buyer/seller transaction communication and interactivity.

Receivable management clients transfer all receivable management responsibilities to LSQ, including collections, cash applications, transaction reporting and credit management. LSQ will provide clients with access to a web based credit approval tool, enabling near-time credit decisioning and review of appropriate credit lines for new and existing customers.

Target Marketing Services

The number of participants in the LSQ MarketPlace will increase exponentially with the addition of each referred client and its buying community. This network effect will dramatically expand the reach of each MarketPlace, creating significant marketing and sales opportunities for FIs, B2B partners and advertisers.



LSQ's relationships with sellers, coupled with the trade credit underwriting and ongoing transaction management activities associated with these sellers' customers, affords LSQ access to multiple layers of customer data. This data will be captured and used to improve credit screening and reduce future underwriting costs. The breadth of data obtained supports profiling and target marketing, enabling the creation of a unique "one-to-one" marketing platform. Aggregation of customer supplied data, enriched by external credit information and internal performance/ behavioral pattern analyses will support an extensive data warehouse for target marketing programs.

FIs, B2B Partners and third party advertisers will gain access to LSQ's profiling tools via the web. LSQ's profiling tool-set will enable these business partners to initiate real-time tailored Internet marketing campaigns to MarketPlace participants.

6. Description of Core Product and Service Functionality

Web Access to Data

LSQ's products, services and transaction capability will be offered through a secure externally accessible website. Clients will have the ability to review credit line availability, invoice assignments, invoice aging reports, invoice specific collector notes and fees, as well as initiate credit line advances and balance transfers from LSQ. They will also be able to electronically request and receive credit approvals, monitor customer (buyers) credit lines and communicate with LSQ and their customers. Additionally, they will be able to segregate and sort all information, review all transaction histories, view all transaction documents (invoices, shipping documentation, purchase orders, etc.) review credit lines, access bank account information, analyze customer (buyers) performance history, resolve disputed invoices, sell product and communicate with their customers. Customers will be able review their full account statements (what they have purchased and when it is due), segregate and sort all information, review all transaction histories, view all transaction documents (invoices, shipping documentation, purchase orders, etc.) review credit lines, access bank account information, analyze vendor (seller) performance history, pay invoices, dispute invoices, reorder and communicate with their vendors.

Online Transaction Reporting

LSQ will ledger client invoices, provide online access to credit information on existing and new customers, send customers monthly statements, manage all collection efforts, apply all payments and provide detailed reporting on all transactions. In addition, clients and customers will be able to access LSQ's secure web site, query LSQ's system for customized information and download all data directly into their G/L. When accessing LSQ's open architecture web data, clients (sellers) and customers (buyers) will be able to view actual transaction documentation including purchase orders, invoices and shipping documentation. In addition, clients and customers will have the capability of disputing invoices and issuing credits online.

Interface with Accounting Software

LSQ will enable clients and their customers to download transactions directly into a number of widely used accounting packages and spreadsheet applications. Clients and customers using accounting software packages such as QuickBooks or Peachtree will be able to upload and post invoice information, download and post transaction data, retrieve credit information on their customer base and submit credit requests for new customers.

Purchase Orders

Online and offline purchase orders will be created by buyers, transmitted/sent to sellers, and linked by LSQ to the invoices subsequently submitted to LSQ by sellers. Invoices will be stored in LSQ's system, together with all associated purchase order and tracking information. Clients and customers will be able

to access these invoices and review all associated documents. In addition, tracking information will hyperlink to each shipping company's web based tracking system, enabling both client and customer to electronically review shipping documents and proof of deliveries. Electronic transaction processing will serve to greatly improve participants' operating efficiencies.

Online Customer Payments

While customers will always have the ability to call LSQ Account Managers, they will also be able to review their account statement on-line. They will have the ability to "point and click" on invoices they want to pay. The dollar value of the selected invoices will subtotal on the page, enabling online payments. In order to enable online payments, customers will simply have to enter their bank account information into the Web system. As each seller/vendor will already be a client of LSQ, the customers will not have to "set up" each of their vendors for online bill payment. In addition, once the customer's online bank information is entered (whether the bank is LSQ's FI partner or not), the customer will be able to hyperlink to its bank statement to confirm sufficient bank balances for the online payment. Once an online payment has taken place, customers and clients will be provided with all confirmation documentation.

Online Dispute Resolution

Customers will have the ability to dispute invoices online. Any dispute will trigger several actions. First, the disputed amount will be subtracted from any credit line availability (amounts clients have available for advances) the client has at that time. Second, the disputed invoice will be flagged as a dispute on the customer's account, and will not be included in any due or past due balance for that customer. Third, the client will receive notification (via email, fax, letter, as specified by the seller) of a customer invoice dispute. If notified by email, the email will include a hyperlink to a disputed invoice field on LSQ's website, where the client will be able to review the dispute and supporting documentation. The client will then have an opportunity to respond to the dispute in near time. If the client authorizes a credit, or does not acknowledge the dispute, a notice will be sent to the customer notifying it that the dispute is in review. The notice will include a hyperlink to the dispute page detailing the client response. If the client authorized a credit, the customer will have an opportunity to accept and approve the credit. If the customer approves the credit, the invoice will move back into the client's availability, as well as onto the customer's account statement, less the credit amount. If the invoice is due, the customer will then be given an opportunity to pay the invoice electronically, as described above, or indicate the intended timing and manner of payment.

7. The Core Value Propositions of Online Commerce

Strategic Positioning for Online Commerce

The LSQ business model uniquely positions the delivery of the key benefits of online commerce to its customers:

- Empowers business managers with real time customer information in a customized format
- Creates process efficiencies
- Reduces transaction costs and time
- Provides insights into customer behaviors and buying habits
- Generates mass customization marketing opportunities
- Supports brand loyalty and customer retention

The ability to enable and facilitate online term (net 30 and 60 days) sales is critical to small business online B2B transaction growth. The majority of B2B buyers demand terms and until such time as small businesses are comfortable offering trade credit to online buyers, small business B2B online commerce will remain a minor percentage of total B2B transaction volume. Through strategic alliances with major B2B commerce sites, LSQ will provide B2B customers with real time trade credit underwriting

functionality, data hosting and receivable and credit management services. These offerings, critical to the success of an online marketing strategy, will provide the following:

- Enable sales through trade credit evaluations and/or financing opportunities
- Create liquidity in the small business Marketplace
- Attract more sellers to participating B2B portals.
- Enable B2B sites to target the larger audience of customers interested in core product procurement

Online commerce portals, augmented by LSQ's products and services, will enjoy increased usage and stickiness.

LSQ's business model recognizes and addresses the two most critical concerns the Small Business Administration has identified small companies selling in an online community have; Web security and lack of knowledge regarding new buying customers. LSQ's web enabled applications facilitate and alleviate both of these concerns.

8. Market Opportunity

Market Niche Opportunity

Industry fragmentation and limited access to data, perceived as ongoing constraints in the small business marketplace have created significant inefficiencies for business owners. In their pursuit of reliable and timely credit information on potential customers, managers currently utilize traditional tools (ie telephone, fax and voice mail) to evaluate markets and industries. Additionally, substantial manual resources must be dedicated to credit evaluation, processing, reconciling, and analyzing transactions and resolving buyer disputes. LSQ fills a need in the marketplace by facilitating and/or conducting these activities for its clients, thereby alleviating internal workload constraints and freeing business managers and owners to concentrate on core business activities.

LSQ's Role in the B2B supply chain and marketplace

LSQ's MarketPlace platform facilitates sales and provides market liquidity by aggregating customer credit information and using custom analytics to remove credit bottlenecks while improving trading partner confidences. The greater the market confidence, the greater the speed and level of market activity. While facilitating e-commerce transactions through robust credit architecture, LSQ's MarketPlace platform enables all participants (buyer/seller/FI) to efficiently manage, track, process and reconcile online **and** off-line commercial transactions. LSQ's MarketPlace's infrastructure will unlock market and business opportunities inaccessible to operations that remain at the mercy of current processes. Through LSQ, online and off-line trading partners will see their market opportunities increase, financial earning rise and fragmentation erode.

Market Size for Small Business Factoring and LSQ's market Opportunity

In 1996, the SBA Office of Advocacy confirmed over 23.2MM business tax returns were filed. Of these, 1.6MM were partnerships and 16.6MM were sole proprietorships with no employees. Slightly fewer than six million entities employed between 1 and 100 employees and 91.6M entities employed greater than100 employees.

LSQ targets sole proprietorships and employer firms with less than 100 employees. In 1995, the most recent year detailed analysis is available of employer firms, there were approximately 4.6MM employer firms with fewer than 100 employees. In light of this data being 5 years old and the growth that has occurred in this sector of the market, these numbers provide a conservative baseline for analytical purposes to evaluate market size. The revenue composition by **firm size** is detailed below:

Number of Employees	1-4	5-9	10-19	20-99	Total
Firms	2,560	981	576	469	4,586
Employment	5,395	6,440	7,734	18,422	37,991
Revenue	$790B	$778B	$965B	$2.68T	$5.21T
Average revenue Per firm	$307	$793	$1,675	$5,710	

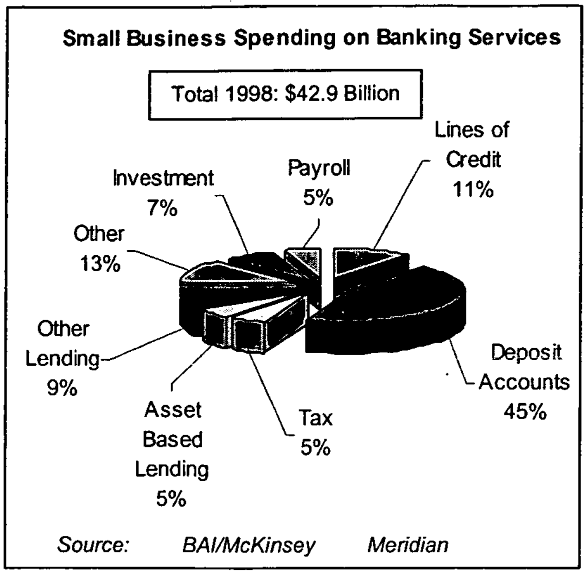
* All data in (000's) except revenue

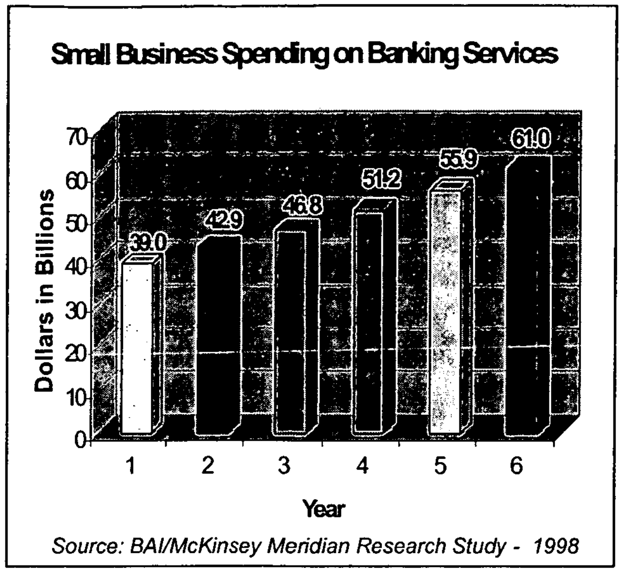
It should be further noted that the $5.2T in annual revenues reported by these companies does not reflect the sales activities of 16.6MM sole proprietorships, a separate market subset which includes viable LSQ client's.

Based on the above analysis, the total potential market set of prospects is conservatively estimated at roughly 4,600,000 companies with cumulative revenues of $5.2 trillion. However focusing on those industries most likely to utilizing LSQ transaction management services reduces the total population of potential clients to just over 830,000, as depicted below:

Industries Suitable for Factoring	# of firms	Revenues ($MM)
Textile	3,910	$7,924
Apparel	17,948	$26,910
Furniture	8,970	$12,113
Paper and Allied Products	3,226	$12,630
Printing, Publishing and Allied Industries	52,965	$51,975
Rubber & Miscellaneous Plastic Products	10,711	$26,866
Stone, Clay, Glass & Concrete Products	10,273	$19,158
Fabricated Metal Products	27,879	$55,634
Machinery & Computer Equipment	45,385	$65,465
Electrical Equipment and Components	11,550	$24,864
Measuring, Analyzing, Controlling Instruments	8,257	$16,164
Miscellaneous Manufacturing Industries	14,825	$3,867
Motor Freight Transportation	90,229	$71,589
Communications	14,289	$21,557
Wholesale Trade – Durable	226,491	$1,013,370
Building Materials, Hardware, Garden Supplies	44,862	$60,613
Business Services	240,438	$145,080
TOTAL	832,208	$1,635,779

The potential market for working capital services may be further refined based on historical access to and usage of financing products. The charts below illustrate, by products and services type, historical small business spending patterns for financial services. This provides some indication of the relationship between working capital financing obtained by small businesses relative to all other bank services purchased.

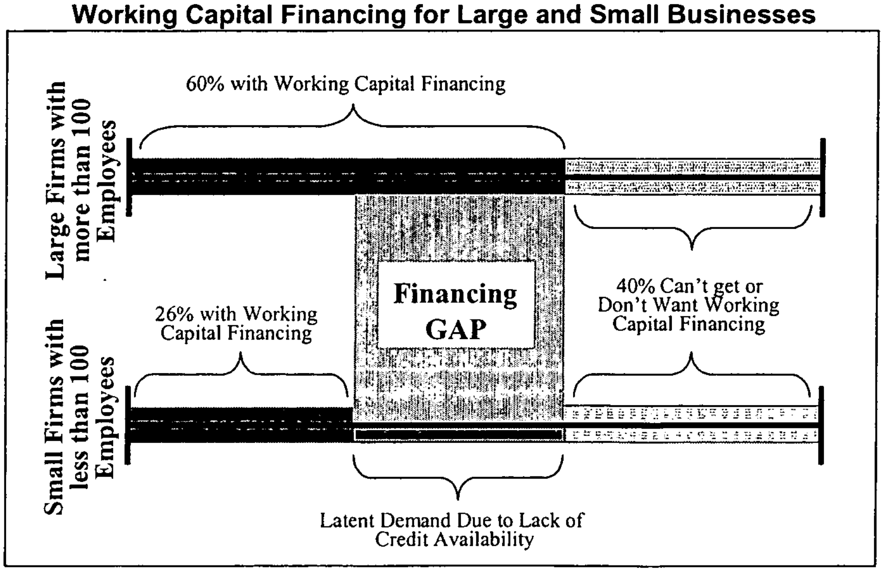




Deriving product usage based on the historical allocation of small business spending on bank services suggests that working capital financing (lines of credit and asset based lending) is available to approximately 15% of small businesses. Data from the SBA indicates that this figure is actually closer to 26%, relative to 60% for large companies. The interpretation of this data indicates that the potential market set of small businesses without working capital financing may range from 74% to 85%.

The SBA data noted above highlights a financing gap existing between large and small businesses relative to access to working capital financing.

Working Capital Financing for Large and Small Businesses



This gap, representing 34% of the total small business population, is thought to be indicative of the limited working capital financing available at the lower end of the small business spectrum.

The following analysis utilizes these determinants to derive potential market size and LSQ's projected market penetration for working capital products and services:

LSQ Market Sizing and Penetration Analysis

Segment of Marketplace	# Companies	Projected Market Penetration 18 Mos.	30 Mos.	39 Mos.
Broad Market Sizing				
Gross Universe of Small Businesses w/less than 100 employees	4,586,000**			
Less:				
Businesses/Industries not typically receptive to Factoring*	(3,756,000)			
Net Universe of Small Businesses Receptive to Factoring	830,000 **			
Subset of Population without Working Capital Financing				
Estimated Range:				
Low End Estimate at 74% (Based on SBA Stats)	614,200			
High End Estimate at 85% (Based on BAI Study)	705,500			
Latent Demand for Working Capital Financing Est. @ 34%				
Estimated Range:	282,200	0.22%	0.46%	0.64%

* According to the SBA, Office of Advocacy, total revenue among small employer firms, in 1995, exceeded $5.2T. The subset eligible for factoring, based on the above, would generate $353B in revenue.

** Total small businesses, excludes 16.6MM sole proprietorships.

This analysis results in a highly conservative assessment of LSQ's potential factoring marketplace at 282,000 small businesses. As detailed in the appendix, LSQ forecast .22% and .64% market penetration rates in months 18 and 39, respectively.

To validate this analytical process, data was extracted from a 1999 report from the U.S. Small Business Administration that profiled the 57 largest Small Bank Business Lenders in the United States against all other Bank Small Business Lenders.

1999 SBA Data:		**# of S.B. Loans**
Aggregate Statistics for all U.S. Small Bus. Lenders*		8,316,448
Base Assumptions:		**# Customers**
Average of 2.0 loans per Relationship	# of Customers in Universe	4,158,224
20% of Customers in Favorable Industries	# Customer Receptive to Factoring	831,645
20% of Customers with Working Capital Financing	# Customers lacking W/C Financing	665,316
34% Latent Demand	# Customers Seeking W/C Financing	226,000

** Total # loans calculated based on the 57 largest Bank Holding Companies' (BHCs) loans less than $1 million ($171,679 billion in outstandir. 3,587,334 loans) combined with the $226,321billion and 4,729,114 small business loans held by all other U.S. Banks (# of loans for all other derived using the average tranaction size of $47.9M noted by the BHCs).*

This market sizing process, while less exact than the initial assessment, supports the validity of the results previously presented. It must be emphasized that this overall market size analysis specifically addresses the working capital component of LSQ's Business Model. Market size, as it relates to the broader based services of trade credit facilitation and transaction management services, must be

considered within the context of the entire Small Business marketplace of over 22MM potential clients/customers.

9. Viability of Distribution Channels

As detailed in the business model, the primary method for attracting customers to LSQ differs from the traditional marketing process undertaken by competitors. Clients will originate through one of three primary channels:

- Financial institution partner credit declinations (direct pipelines of referrals) (primary)
- B2B Referral Applications (primary)
- Prospecting clients' buying communities (primary)
- Other (Website traffic/Internet searches/Offline applications) (secondary)

Financial Partner Declination Referrals

LSQ is currently in discussions with four first tier financial institutions (FI). Due diligence is in progress with three of the four, and expected to begin with the remaining FI in August. An additional five first tier financial institutions are currently being targeted. Each FI was chosen based on the following criteria:

- Centralized small business credit underwriting process to facilitate declined deal flows
- Demonstrated commitment small business banking and lending
- Aggressive e-strategy that is complemented by the products and services of LSQ
- Willingness and ability to provide potential clients to LSQ electronically
- Currently not involved in small business factoring

FIs will receive a referral fee based on a percentage of the revenue earned by LSQ on referred clients. Utilizing figures derived from the SBA Bank Holding Company Survey (June 1999), LSQ estimates that the eleven financial institutions identified as the key alliance partner candidates will generate approximately 33,817 leads per month for LSQ. LSQ's financial analysis only assumes that 7 FIs will participate by the end of the first year and 11 FIs will be in place by month 39. In addition, LSQ's financial model requires no more than 13,750 leads a month by the end of year 3.

B2B and E-Commerce Channel

Though it is difficult to estimate the size of the small business B2B market, the following background and research provides an overview of the market characteristics.

A national survey conducted by BankOne in July 1999 estimated that small businesses with fewer than 10 employees and annual revenues up to $1 million account for nearly 80 percent of all U.S. companies. It was also determined that nearly 50% of these companies had Internet access, and approximately 20 percent had established their own Website. Currently 6% of small business owners report they bank through the Internet, with nearly all of these businesses listing "convenience" and "ease" as the reasons they bank online. Of small business owners who do not currently bank online, 7% report they plan to begin banking online in the next 12 months.

An internal survey of LSQ's client base further supports these findings, with 85% reporting that they either have or are developing their own Website. While only 30% of LSQ's existing client base currently bank online, the remaining 79% indicate a strong interest in accessing their LSQ account information online, and of that subset, 93% indicated that they would access their information daily.

Market research indicates Online B2B transactions are projected at $2 trillion in 2003, with one recent estimate soaring to $3.95 trillion. This explosive growth springs from an estimated $43 billion worth of online B2B transactions in 1998 and "virtually zero in 1990." The Gartner Group has forecast a more

staggering number, estimating that e-commerce by firms and industries in 2004 will exceed $7.29 trillion. However, the small business marketplace is lagging significantly behind its larger counterparts, with only $25B in revenue projected by the end of 2002. The primary drivers of this lethargy are concern for customer service, technological cost and security risk (including business risk). Unlike large corporations, small businesses do not possess the internal infrastructure, technological sophistication or personnel to manage online trade risk. As a result, most small business sellers rely on credit card companies to out-source online trade risk. The resulting "credit card sale or no sale" methodology has limited online commerce growth among small businesses. Until small businesses are able to transact business online, in the normal course (trade debt), the vast majority of small business commerce ($7.4T) will continue to be transacted offline. LSQ's product suite directly addresses this obstacle to material e-commerce enablement.

Prospecting Clients' Buying Communities

LSQ's MarketPlace environment offers access to significant amounts of information with respect to its clients' customers. In the normal course of business, acting on behalf of its clients (Sellers), LSQ is in constant contact with their buyers. LSQ's MarketPlace environment will deepen these relationships and enable LSQ to target these businesses as prospective clients.

In an effort to gauge the viability and magnitude of this potential secondary market, a high level analysis has been constructed, as follows:

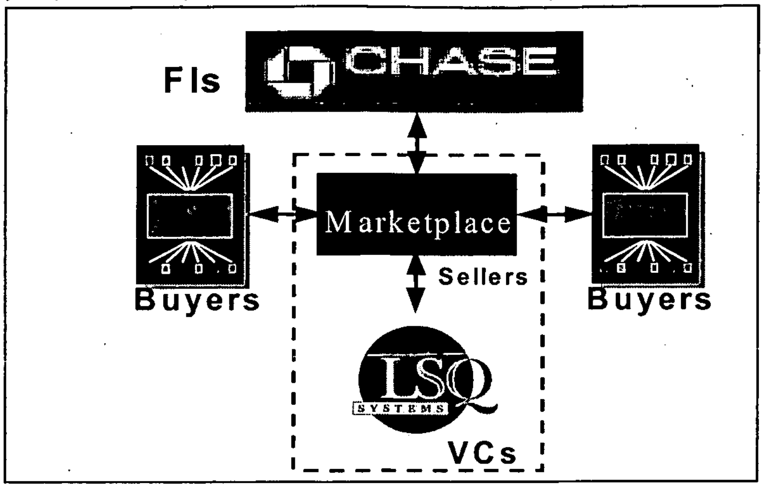
Clients' Buyer Communities - Opportunity for LSQ Market Penetration

	Year 1	Year 2	Year 3
Assumptions:			
Average # Customers per Client	100	100	100
Estimated Buyer Community Client Acquisition Rate	0.25%	0.25%	0.25%
# Active Clients through Declination Referrals	368	968	1,651
Calculations:			
# New Clients through Declination Referrals	368		
# New Clients from Buyer Communities	-		
Universe of Customers	36,800		
# New Clients from Buyer Communities - Year 1	**92**		
# New Clients through Declination Referrals		968	
# New Clients from Buyer Communities - Year 1		92	
Universe of New Customers		106,000	
# New Clients from Buyer Communities - Year 2		**265**	
# New Clients through Declination Referrals			1,651
# Clients from Buyer Communities - Year 2			265
Universe of New Customers			191,600
# New Clients from Buyer Communities - Year 3			**479**
Total # Clients Obtained through Buyer Communities	92	265	479
Cummulative Total New Clients - 3 Years			836

Based on the projected volume of new clients generated from declination referrals, LSQ will have relationships with almost 272,000 buyers (including both Sellers and Buyers) by the end of year 3 (On average, each of LSQ's clients sells to 150 different businesses over the course of a year). From this universe of buyers, it is estimated that LSQ will convert at least .25%, or 836 businesses, to new clients over the 3-year period, generating an additional $68MM in revenue. **It must be noted, however, that management has elected to exclude these figures in the financial projections, given the uncertainty surrounding actual verses estimated acquisition rates.**

10. Value Proposition

Value will be created for each participant in the LSQ network. Financial Institutions, Clients (Sellers), Customers (Buyers) and Equity Investors will realize both tangible and intangible benefits.



Each of the four primary MarketPlace participants enjoy a unique set of benefits that creates value:

Venture Capitalists (Equity Partners)

- The NPV of future cash in-flows for the initial 3 year period is $28.5MM (using a 25% discount rate)
- Clearly articulated choice of exit strategies which can be realized in 3 years
- Positive cashflows are achieved and sustained by month 13

Financial Institutions (Declination Provider)

- Enhanced customer relationships and stickiness
- Increased brand exposure to declined customers and their buying communities
- Ability to fulfill customers' needs through an alternative delivery channel
- Ability to implement targeted real time B2B marketing campaigns
- Generation of fee and non-interest income
- Improved referral process automation, tracking
- Diversifies and leverages existing e-commerce initiatives

Sellers (Participants that Sell Invoices to LSQ)

- Access to working capital financing
- Improved credit risk management through expert trade credit underwriting
- Improved transaction liquidity
- Improved operational efficiency
- Reduced transaction costs
- Improved customer profiling through MarketPlace tool-set

Buyers (Participants that have had Invoices Issued to them)

- Cost and time savings through online payment, invoice dispute enablement and settlement mechanism
- Increased efficiency in operations
- Reduced transaction costs
- Improvement in transaction liquidity
- Increased purchasing power through expanded ability to obtain trade credit
- Improved transactional reporting and communications with Seller
- Access to LSQ MarketPlace content

11. Industry Analysis

The factoring of accounts receivable is a well-established business-to-business financing tool. Until recently, factoring has predominantly been provided by commercial finance companies and bank owned subsidiaries. These factoring providers primarily target the apparel, textiles and furniture companies with annual revenues in excess of $10MM ("large business").

The maturing of the old-line factoring industry, as evidenced by slow industry growth, high fixed costs, high exit barriers and intense rivalry among its participants, creates significant strategic challenges for long term growth and profitability. These challenges, coupled with the limited cost for clients to shop or switch factoring providers, has left factoring providers competing primarily on price and focused on industry consolidation. While consolidation has helped many factoring providers achieve greater economies of scale, demand has remained constant over the past few years. According to the Commercial Finance Association (CFA), factored volume increased only 5.02% in 1998, to $76.28B. This increase is only slightly greater than the 4.3% growth rate of GDP, as reported by the Bureau of Economics.

Small Business Factoring

Unlike the old-line factoring industry, the number of small business factoring providers has grown substantially over the past ten years. Small business factoring providers service customers with annual revenues of $500M to $10MM, without any specific focus on industry segment. There is limited available data on the highly fragmented small business factoring community, however CFA reports that the number of small finance companies, as a percentage of its total membership, has grown from 25% in 1988 to over 52% today.

Small business factoring providers have successfully expanded financial services to the transportation, business services, wholesale trade and light manufacturing industries. While the small business economy's explosive growth has helped create a market for small business factoring, the small business factoring market exists because it is filling a primary need in the marketplace.

The growth in the small business factoring industry has been driven by a fundamental change in the way credit is assessed by banks. Over the past five years, as credit scoring among major financial institutions has become mainstream, the working capital financing gap for small business has continued to grow. Banks have turned to credit scoring as a way to improve internal efficiencies. Through the elimination of traditional underwriting methods (financial statement analysis, credit committees, etc.) and monitoring costs, efficiency has improved and profitability has increased.

The credit scoring models used by most major banks accomplish the above by heavily favoring fully amortizing term loans to companies with solid and financially strong owners. Credit scoring models

designed to create internal efficiency, without deterioration in credit quality, place a negative weight on non-amortizing loans secured by liquid collateral (lines of credit). Loans that are not fully amortizing are usually approved only if the company has an ability to amortize the loan over a short period of time (usually two to three years), and if the owners have very strong personal credit. The above criteria has severely limited most major banks' ability to provide small businesses with lines of credit over $50M and less than $1MM (many banks have chosen to credit score all loans of less than $1MM). The market for credit lines over $50M is the primary target of most small business factoring providers.

Fragmentation

Market intelligence obtained through Distinctive Solutions, the leading provider of factoring software to small business factoring providers, estimate there are 700 to 900 small business factoring providers across the United States. The majority of these companies are privately held, with limited access to resources, technology and industry experience. No single factoring provider holds greater than a 5% market share in the non-traditional, small business factoring industry, and we believe that this fragmented distribution of market share and limited technology has created an opportunity to seize a large market share.

12. Competitive Landscape

While there is no current provider of parallel services, LSQ recognizes that competitive threats exist on many levels. Potential competitors range from money center banks to current small business factoring providers. The value proposition and lead mover advantage of the MarketPlace will differentiate LSQ. An overview of potential competitors is outlined below:

Super Regional and Money Center Banks

Super regional banks and money center banks pose a competitive threat for LSQ. These companies currently operate in a highly competitive industry and are constantly pursuing new business opportunities. If these companies aggressively pursued factoring, they would be able to offer products and services similar to those of LSQ. However, according to Tower Group research, due to the low dollar value and high-risk nature of most small business lending, this market is not attractive to banks due to the cost, risk and return trade-off. Although these institutions have the resources available, developing the type of infrastructure required for online competition would take funding away from other, potentially more profitable ventures. Given the limited resources directed to small business lending, it is improbable that banks would pursue online factoring as a major initiative.

Offline Small Business Factors

The success of LSQ will be driven by its ability to develop relationships with premier FIs and to demonstrate to clients that the benefits of its new business MarketPlace model provide greater benefits than the current offline environment. Meridian Research estimates the volume of small business online financial transactions will grow at a rate of 31% per year, faster than any other customer segment. The LSQ business model is tailored to meet the needs of changing small business behaviors and to capture this significant opportunity.

Credit Card Processors

Credit card processors such as First Data Resources (FDR) or Total Systems Services have the technological infrastructure necessary to create an environment to support online factoring. These companies, in partnership with banks or other finance companies, could combine, presenting a competitive risk to LSQ. A large credit card processor could spread the development cost among several clients and become a significant player in the industry. However, ultimate success is predicated on the specialized credit skills associated with factoring, a core competency not typically found in traditional financial institutions.

Non-traditional Competition

We anticipate that the Internet will change the competitive landscape in factoring just as it has in other industries. Non-traditional competitors will more than likely appear in the near term. Examples of this type of competitor could be:

- B2B credit facilitators such as LiveCapital or PrimeStreet, which match lenders with clients (auction environment).
- Consortiums of finance companies that may want enter the business but do not want to bear the risk, or have access to, the capital required to build the infrastructure.
- Mortgage processing companies or other organizations that currently process significant volumes of data that is often non-standard in format and content.

Current Online Competition

Several online lenders and lending facilitators exist in the market today and may pose a threat to LSQ. None of the organizations currently offer the same financing product or functionality, but could potentially adapt current products or processes. Characteristics of these competitors are compared to LSQ in the table below:

Competitive Considerations	LSQ	Town Services, Inc	MyReceivables, Inc	Private Business Inc.	Live Capital .com	E-Credit. com	21st Capital Corp.	Liberty Finance Co	Aero Fund Financial	GE Capital Finance	CIT
Service Standards											
Same Day Approval Turnaround	●					●					
On-Line Access - Acct. Info.	●	■	■					■		✹	■
Customer G/L System Interface	●	●									
Profiling & Target Marketing - Viral Marketing	●		■								
Strong B2B Supply Chain Coverage	●				●	●					●
Referral Sources											
B2B Commerce Sites	●				●	●					●
2nd & 3rd Tier Banks	●				●	●					
First Tier Banks	●				●	●					
Services Offered											
Customer Communication Enablement	●										
Customized Reporting - Client	●		■								
Customized Statement Generation	●	■	■								
E-Bill Presentment & Payment	●	●	●						✹		
Customized Underwriting -Expert System	●				●	●					
Buyer/Seller Dispute Resolution Support	●					×	×		●	×	×
Factoring	●		●				●	●	●	●	●
Loan/Lease Outbound Referrals	●	●		●	●	●					
Trade Credit Facilitation	●	■	■		●	●		×	×		×
A/R Management & Collections	●	■	■	■		■	×	×	×	×	×
Accessibility											
Turn Key - No System Criteria	●				●	◆	●	●	●	●	◆
Target Market											
Small Business Focus	●	●	●	●	●	●		●	●		
Broad Industry Focus	●	●	●	●	●	●	●	●	●		●

Legend: ***Prepared as of 4/30/00***

- ● *E-Enabled and/or Electronic Data Interface*
- ✹ *Pending implementation - Proposed*
- ■ *Availble On-Line but not real time*
- × *Capability offered in an Off-Line Mode*
- ◆ *Some services require proprietary software*

13. Position and Pricing

Financing Clients

Historically, small businesses have viewed factoring as a financing vehicle of last resort. Driving this perception has been the low quality of service, excessive financing costs and limited expertise of most small business factoring providers. LSQ's web-based product will automate routine processes, provide unmatched customer service, and offer interest rates only slightly higher than bank financing. This combination of products and services will enable LSQ to offer factoring as a viable and attractive product offering. LSQ's financing clients generally have the following characteristics:

- Annual sales of $500M to $15MM
- Products or services sold to other businesses on credit terms
- Buyers are invoiced for completed services or delivered products

- Unable to obtain any, or sufficient, bank working capital financing
- Growing companies with limited capital
- Not involved in 3rd party billing (medical practices, hospitals, etc.)

While client specific pricing will be negotiated based on actual market factors, operational costs and risk profile, the table below demonstrates projected pricing tiers, based on receivable volume.

Monthly Volume of Receivables	**Discount Rate**	**Interest Rate on Advances**
Less than $100M	3.29%	Prime + 3%
$100M to $300M	1.88%	Prime + 2%
More than $300M	1.00%	Prime + 1%

Transaction Management Clients

Transaction management clients (no financing) are generally small businesses seeking to reduce costs, improve efficiencies, outsource non-core business functions and improve transaction liquidity. These clients generally generate at least $100M per month in sales. Like financing clients, these clients are not involved in third party billing (medical practices, hospitals, etc.), and are not involved in industries subject to frequent disputes (accounting, legal, construction).

Pricing for receivable management clients will be more favorable to the client, as no credit risk will be assumed by LSQ.

Monthly Volume of Receivables	**Discount Rate**
$100M - $300M	1.50%
More than $300M	1.00%

Advertising

Based on a study by Media Metrix, business-to-business advertising is the fastest growing segment in web-based marketing. LSQ proposes to sell advertising space to FI, clients, customers and other B2B parties. The Advertising rates below are based on the most recent available rates for search engine or portal sites in the B2B market. LSQ will endeavor to charge a premium of 30% based on the ability to target specific market segments. Advertising rates and projected traffic are as follows:

Advertising rates		*Projected website traffic and revenue*		
Impressions per month	Price per 1000 impressions per month		Average Impressions per Month	Annual Revenue
1 – 250,000	$37.70	Year 1	32,783	146,000
250,001 – 500,000	$35.10	Year 2	142,081	829,000
> 500,000	$34.60	Year 3	297,735	1,825,000

Other Revenue Opportunities

Revenue may be realized from other sources, as delineated below, during the first three years of operation. **However, due to the level of uncertainty, projections for these revenue types have not been included in the cash flow statements**. This revenue may have a significant positive impact on future cash flows.

Alliance partner commissions

LSQ will sell advertising to companies other than the financial institution partners and will receive commissions for any products purchased through these sites if the transaction originated at the LSQ portal.

Buyers that become sellers

LSQ data warehousing and analysis functionality will enable LSQ to analyze payment patterns and buying behaviors to determine when buyers experience cash flow difficulties. This information will be used to market factoring services, receivable management, and trade credit underwriting services to non-client participants in the MarketPlace. The superior customer knowledge and service, improved efficiencies, reduced transaction costs and best of breed information delivery experienced by MarketPlace participants will assist LSQ in converting participants into clients. The table below demonstrates the impact of adding buyers to the seller network.

% of Buyers converted to Sellers	Clients added annually			Additional Revenue $(000s)			
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Total
0.10%	36	100	176	1,894	5,247	9,183	16,632
0.20%	73	209	375	3,188	10,873	19,491	34,152
0.30%	109	324	597	5,682	16,88	31,038	53,598
0.40%	146	447	844	7,576	23,262	43,937	74,775
0.50%	182	577	1121	9,470	30,024	58,302	97,797

14. High Level Business Case

Realistic and achievable financial projections for LSQ's expected cash flows appear on the following pages. These projections are based on estimates of incoming client volume, market rates for similar off-line products, and historic turnover and loss rates. Detailed financial estimates are presented in Appendix A of this document. All financial projections are subject to the following key assumptions:

- Projections have been prepared by LSQ based on knowledge of the industry and reasonable expectations of the future state and have not been reviewed by an independent accountant.
- Some key factors were derived from or confirmed by referencing publicly available material or consultants.
- The actual results may vary significantly from those reflected in these projections, and these figures are not intended to be taken as a guarantee of particular results or cash flows.

Key performance measures and pricing for the base case projections are presented in the table below. Sensitivity to changes in the primary revenue drivers is presented in Appendix A.

Base Case Key Performance Measures

	End of Year 1	End of Year 2	End of Year 3
Number of Banks	8	10	11
Total Monthly Referrals	10,000	12,500	13,750
Number of Clients	503	1,132	1,815
Number of Customers	77,462	169,800	272,250

Base Case Pricing

	Purchases less than 100M	**Purchases 100M to 300M**	**Purchases greater than 300M**
Financing Services			
Discount Rate	3.29%	1.88%	1.00%
Interest Rate	Prime + 3	Prime + 2%	Prime + 1
Receivable Management Services	**Purchases 100M to 300M**	**Purchases greater than 300M**	
Discount Rate	1.50%	1.00%	
	Cost per 1000 Impressions		
Advertising	$37.70		

- Time before positive cash flow stream will be achieved and sustained: 8 months.
- Loss rates estimated to be 0.125% of annual purchase volume.
- Incoming cash flows will begin in the fourth month four of the first year.
- Percentage of referrals that become eligible prospects: 7%
- Percentage of prospects that become clients: 7%
- Portfolio attrition of 10%

LSQ Cash Flow Summary ($000s)

		Development Period	Operations Year 1	Operations Year 2	Operations Year 3	Total
		Months 1-3	Months 4-15	Months 16-27	Months 28-39	
Incoming						
	Discount Income	808	11,052	29,404	51,313	92,576
	Interest	236	5,958	17,908	30,739	54,842
	Advertising	9	233	693	1,254	2,190
	Wire transfer	1	51	169	313	533
	Receivable Management	42	1,397	4,283	7,728	13,450
	Total Incoming	**1,095**	**18,691**	**52,457**	**91,347**	**163,591**
Outgoing						
	Staff	794	6,552	11,806	16,316	35,467
	Rent and Admin	269	2,227	3,426	4,598	10,520
	Bank referral fees	33	523	1,441	2,536	4,534
	Interest	176	3,759	11,422	19,407	34,765
	IT Development	4,335	7,654	487	487	12,962
	Other	147	2,454	6,212	9,078	17,891
	Total Outgoing	**5,754**	**23,169**	**34,794**	**54,422**	**116,140**
Free Cash Flow Before Taxes		**(4,659)**	**(4,478)**	**17,663**	**38,925**	**47,451**
EBITDA			**355**	**31,955**	**62,015**	**91,132**

Cash flows for the first three years of operations reflect the gradual increase in the number of banks, which drives the total referrals and receivable purchases. The projections show the number of FIs climbing to 11 by the end of year 3.

Initial estimates of the number of referrals per bank were derived from data obtained from SBA statistics. The average of 1,250 referrals per month per bank does not include figures from the two largest FIs reviewed, each of which are projected to supply up to 4,000 referrals per month.

Capital Requirements

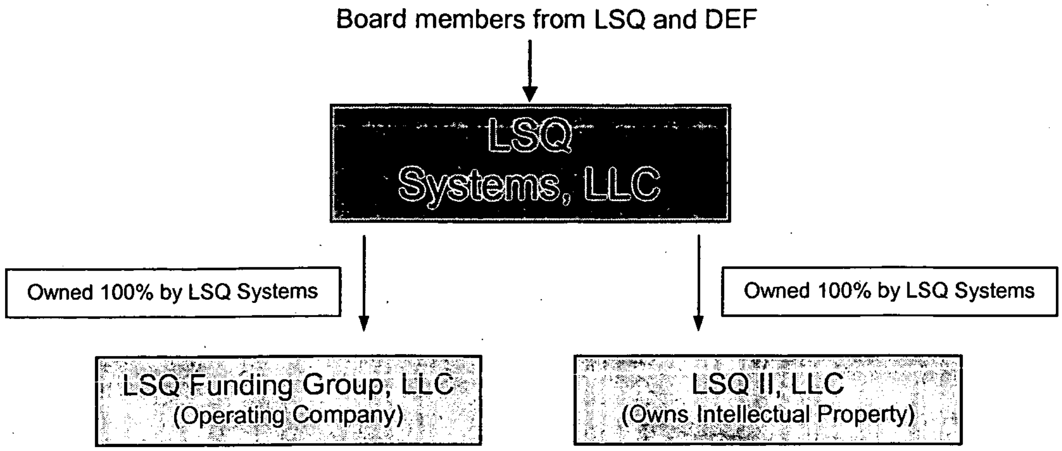
A key component in the success of LSQ depends on the availability of an adequate capital base to support the underlying costs associated with the development and operation of the business. The initial capital required to implement LSQ's Web Marketplace is $12.0MM. Additionally, LSQ will need to increase its existing $11MM CLN to $65MM, and will need $12MM in subordinated debt to support the advance rate and debt to worth covenants of its CLN. As a result, the following sources of funding have been considered:

Equity: $12MM: supported by ownership in LSQ Systems.

Working Capital: $65MM: most likely will take the form of a syndicated facility, with members including the FIs utilizing LSQ's MarketPlace environment.

Mezzanine Debt: $12MM: multiple sources, including FI participants, equity providers and specialty lenders.

Structure



15. Technology Overview

LSQ, with the assistance of KPMG Consulting, L.L.C., will build a flexible, scalable web-based platform that will enable the company to efficiently manage the growth that will come with the implementation of its Web strategy. The diagram on the following page reflects the preliminary application architecture footprint required for LSQ's operations. All external access to the network will be secured via firewall and digital certificates, and participants in the network will have unique user names, passwords to protect client and customer data.

LSQ's technology platform is a multi-tier architecture, which consists of a presentation layer (external and internal user interface) data integration and scalability layer (data aggregation and management) and a back-end (application packages and data storage). This component-driven design provides the powerful tools to interact with participants regardless of participant architecture. To maximize operating efficiency and speed, extensive use of new markup technologies such as XML will be used throughout the design.

Tier 1: Presentation

Financial institutions, buyers, and sellers will have state of the art tools available when accessing the LSQ MarketPlace. For processing core business transactions, buyers and sellers will access a customized page that will display all standard site features and alerts indicating any immediate action that is required. The user interface layer will enable clients to seamlessly access account information, download transactions to their accounting software, or act on any disputes or customer service requests. All participants in the process will realize the value of the system with limited knowledge of technology and no investment of IT infrastructure.

FIs will have the choice of private-labeled, co-branded, or non-branded participation in the MarketPlace. For private label clients, the presentation to buyers and sellers will be identical to the FI's current web branding appearance, along with links to other banking products or services. Additionally, the FIs will have assigned space available to promote products and services. Regardless of the exposure level chosen, all FIs will have exclusive access to the clients that they refer, as well as the customers of those clients and all their subsequent trading partners. Other B2B companies will be able to advertise, but no other FIs will have access to the community created by each FI alliance partners.

Using LSQ's robust profiling architecture FI will have the ability to choose from or define multiple variables that will enable marketing to all participants in their branded Marketplace, on a 1:1 basis, improving bank perception and reducing acquisition costs. The value of the profiling and

marketing opportunities available to strategic alliance partners are increased both as a result of the unique information available to LSQ through its receivable management and trade credit underwriting functionality, and through the exponential impact which occurs with the addition of each new referral, and its buying community.

Tier 2: Data Integration and Scalability

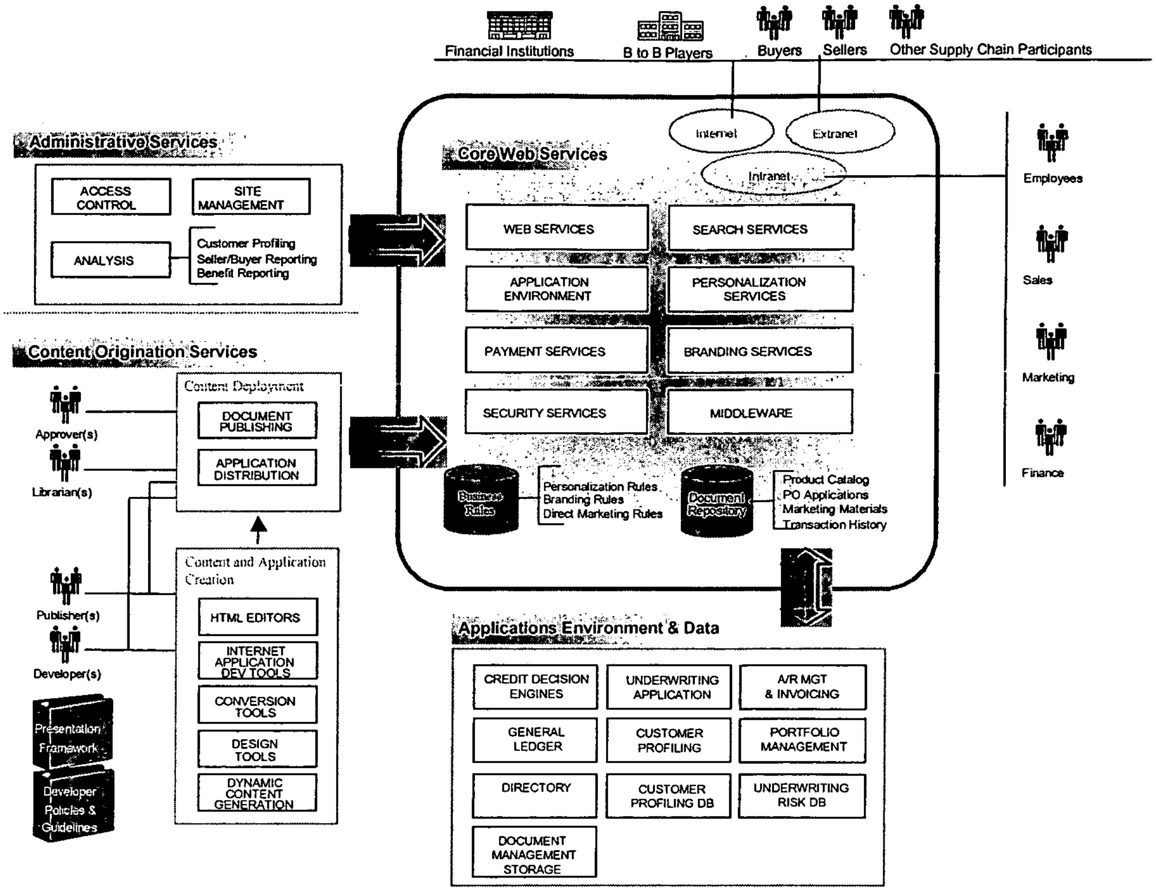
The robust data aggregation and management layer will qualify and move data through the network to the application systems and storage facilities. This critical intermediate step will also segregate and flag all critical data for the MarketPlace. The design of this stage will enable the network to efficiently manage the growth that will come with the implementation of LSQ's Web strategy, while providing a high level of process efficiency on a normalized basis. LSQ's focus on volume and efficient scalability will drive a low cost operating environment and will allow LSQ to maintain flexibility in a price sensitive environment.

Tier 3: Back End

The engine of LSQ's technology architecture will be an application server environment that will drive the MarketPlace. These applications will be chosen from existing proven vendors during the design and architecture phase of the initiative. In an effort to minimize customization and maximize stability, strong emphasis will be placed on proven systems with open architecture. Several applications will be developed, including an expert system that will manage trade credit and client underwriting, and LSQ's Application Server.

Data storage will also be a critical component of the architecture, as the storage and retrieval of data will drive the value propositions to all participants in the MarketPlace. Creating a robust storage facility will provide the foundation for the active selling service. Initial plans call for an Oracle or SQL Server database to accommodate multiple simultaneous users without sacrificing storage capacity.

LSQ Application Architecture



In designing the architecture, only mature and manageable technologies will be employed to support a platform that is reliable, flexible, and cost efficient. Architectural standards include the following:

Architectural Element	Standard
Application Servers	Windows NT server
Office Automation Servers	Windows NT
Workstations	Windows 98
Office Automation	Office 2000 Outlook 2000
Network	TCP/IP LAN
Web Servers	IIS
Web Browser	IE
Security	Analysis underway

16. Risks

The underlying business model supports a definitive market opportunity for LSQ. However, there are a number of risks that must be taken into consideration and mitigation strategies put in place in order to achieve the desired long term return on investment.

Risks to financial institution partners

Business risk		Contingency / Mitigation strategy
• Damage to FI reputation	• Damage to a FI reputation from an event occurring between the parties or customers	• FI will review and approve final product offering prior to implementation. LSQ will allow FI to perform service quality audit assessments on referred relationships and will work with the FI management team to continue and build on relationship development opportunities
• ROI fails to meet FI requirements	• Costs and or income are different than expected, moving ROI below management targets	• Initial technical assessment and due diligence will determine the approximate cost of the IT investment. FI are the source of declinations, and are therefore the primary and the most important driver of non-interest income, "volume". LSQ will work closely with FI to develop approximate success rates of declinations based on experience and review
• Partnerships and alliances	• LSQ is unable to enter into key partnerships and alliances to develop CRM and business linkages	• Key partnerships and alliances will be finalized, and agreements in place prior to implementation. LSQ will enter into alliances only after considerable due diligence and will have contingency plans to avoid work stoppage due to alliance issues

Risks to Investors

Business risk	Description	Contingency / Mitigation strategy
• ROE fails to meet DEF requirements	• Return on equity fails to meet the level anticipated in the business case	• The key driver of ROE is income flow obtained from financial institution declinations, LSQ is currently in due diligence with 3 FIs, therefore providing greater cashflow certainty
• Failure of IT implementation	• Risk that project exceeds time and budget and / or functionality requirements	• Detailed project plan, costing and technological assessment will be completed prior to implementation, supported and developed by global consulting partner KPMG
• DEF cannot exit from investment	• DEF have difficulty realizing the equity value in LSQ	• Three alternative exit strategies are in place to support an exit by DEF, these will be refined and finalized during the first 2 years of operation to maximize the shareholder value of equity investors

Key Implementation Risks

Implementation risks	Description	Contingency / Mitigation strategy
• IT implementation	• Risk that project is not delivered on time	• A detailed project plan and technological assessment will be developed and agreed to with lead contractor. • The process will be iterative to enable the implementation team to reprioritize tasks to ensure timely delivery to market. • LSQ will only use proven and existing technology architecture. • Delay (cost) clauses will be put in place to minimize risk of time overrun
• IT implementation	• Risk that project budget is exceeded, therefore putting completion at risk	• A detailed project costing will be developed linked to a fixed price contract with lead contractor and software suppliers.
• IT implementation	• Risk that the functionality of LSQ does not meet the FI expectations e.g. capability, security, interface etc	• A detailed matrix outlining key functionality characteristics, detailed use-cases, use of existing proven technologies where functionality can be viewed and demonstrated will provide comfort as to ability to provide required functionality.
• Staff capabilities	• Risk that staff will not be available (in a tight labor market) to manage and run LSQ	• Senior management team now in place and operating, leverage of existing staff base will occur (from LSQ) if recruitment is not possible, new staff will be provided with incentives through vested options to stay and grow business

18. Implementation Plan

LSQ currently services 50 clients and over 3,000 customers. Cumulative transaction volume is expected to exceed $100MM in FY'00. The majority of LSQ's business processes are manual, with desktop automation in place where cost effective.

LSQ is currently in the process of performing due diligence with three of the largest banks in the southeastern, mid-Atlantic, northeastern sections of the country and anticipates starting pilot programs with each of these institutions within the next 60 days. The company is also in discussions with a money center bank, and expects to begin discussions with and additional five FIs within the next 45 days. LSQ has the capacity to absorb incoming deal flow from three banks in its current environment, and has the following plan to implement the IT infrastructure to process the additional volume of work and its Web functionality.

Implementation of the infrastructure and business activities will be accomplished in three phases. Critical milestones for each phase are listed below:

Phase I – Planning and Design (8-10 weeks) $720,000

The goal of Phase I will be to produce detail design specifications and implementation plans for all components of the architecture.

Determine "Buy or Build" strategy for the following systems

- A/R management
- Customer profiling
- General ledger
- Fraud screening
- Document management
- Process tracking
- External data capture
- Underwriting
- Portfolio management

Further define services to be provided

- Information provider interface
- Dispute management
- Application interconnectivity
- Internal and external web interfaces
- Directory

Infrastructure design

- Security
- Email
- Capacity planning
- Web servers
- System management
- Network architecture

Phase II – Development and Implementation (12-15 weeks) $6,176,000

In Phase II, all mission-critical systems will be developed or purchased and implemented. These systems include the infrastructure components and all systems required for processing core business functions for LSQ. Planned activities for Phase II are:

Develop and/or implement application systems

- A/R management
- General ledger
- External data capture
- Underwriting (LSQ financing clients)

Develop and implement services

- Information provider interface
- Dispute management system
- Document management
- Web sites
- Process tracking
- Customer profiling

Implement components of the architecture

- Security
- Web servers

Email

Systems management

Network

Phase III – Development and Implementation (12 weeks) $4,323,000

In Phase III, the remaining components will be developed and implemented. These systems, while critical to the business model, are not required to be in place in the first three months of operation. The components implemented in this phase are highly customized to LSQ products and processes, and include:

Develop and/or implement application systems

Underwriting (trade credit and client underwriting modules)

Enhanced client fraud screening

Portfolio management

Develop and implement services

Expanded document management system

Customer profiling enhancements

Correspondence manager

Appendix A – Financial Details

The following financial projections are based on assumptions relating to the various business offerings of LSQ. Several of the critical factors were derived from or confirmed using publicly available material or consultants.

Market Size and Client Volume

The overall projections of market size and client volume were calculated by estimating the volume of declined small business loans among a list of US banks, as identified by the Small Business Administration. These figures were estimated using the historical small business loan growth rates to determine the projected application volumes. Banks were assumed to approve 50% of loan applications, and LSQ was assumed to approve 0.49% of referrals. The following banks were chosen as the initial partner targets. Bank One and US Bancorp were omitted from the estimates used in the financial projections to avoid skewing the results.

	Projected Application Volume	Approval Rate	Projected Referrals to LSQ	Annual Deals Closed by LSQ
Bank One	210,982	50%	105,491	517
BankBoston*	3,071	50%	1,536	8
Chase	77,597	50%	38,799	190
First Union	14,622	50%	7,311	36
Fleet*	12,032	50%	6,016	29
Huntington	17,792	50%	8,896	44
Keycorp	32,012	50%	16,006	78
Lasalle	14,135	50%	7,068	35
PNC	5,400	50%	2,700	13
Regions	60,000	50%	30,000	147
Suntrust	76,735	50%	38,368	188
US Bancorp	201,524	50%	100,762	494
Wachovia	36,564	50%	18,282	90
Zions	49,154	50%	24,577	120
	Total Annual Volume		**405,812**	**1,988**

*Fleet and BankBoston merged in 1999

Average monthly volume and the projected composition of the portfolio were derived based on current data from LSQ Funding. These figures will be used for all revenue projections.

Purchase Size Segment	Projected % of portfolio	Projected % of clients	Average Monthly Purchase Volume
< 100,000	13%	43%	50,388
100,000 - 300,000	38%	40%	158,333
300,000 +	49%	17%	480,392

Revenue Drivers

Discount income

LSQ will charge financing clients a fee at the time of purchase for receivables management processing. This fee revenue was estimated using the following formula for all three pricing tiers.

Formula	*Example for tier 1 – monthly purchases* less than $100,000
Number of active strategic alliance partners	7 banks
x avg number of monthly referrals	1,208 per institution
x % of referrals closed	1.3%
x avg dollar volume of monthly purchases	$50,388
x projected % of clients	43%
x discount rate	3.29% for tier 1 clients
= discount revenue	= $78,360.97

Interest

Interest will be charged to clients that request advances on the purchase of their receivables. Interest income estimates are based on the following assumptions:

- Net funds employed will be 76% of total available funds
- Pricing is tiered based on monthly purchase volume

Monthly Volume of Receivables	Interest Rate on Advances
Less than $100M	Prime + 3%
$100M to $300M	Prime + 2%
More than $300M	Prime + 1%

Transaction-based fees

LSQ will earn $3 per transaction for all funds transfers. Activity from previous factoring experience indicates that the volume of these transactions will average 4 transfers per client per month.

Receivables Management

Receivable management clients will be charged a fee using the same method as is used for the discount fee. Only clients that sell $200M in receivables per month will be eligible for the service, and the average monthly volumes are estimated to be $250M for clients with volumes under $300M.

Monthly Volume of Receivables	Discount Rate
$200M - $300M	1.50%
More than $300M	1.00%

IT Development Expenses

Projected IT development expenses were determined based on a high level workshop conducted by KPMG Consulting (all figures in 000s).

Development Costs		
Phase I -	Planning and Design:	720
Phase II -	Development and Implementation I:	5,648
	Hardware:	528
Phase III -	Development and Implementation II:	3,773
	Hardware:	550
	Total Development Expenses	11,219

Expenses

Annual salaries and staffing levels are as follows:

	Annual Salary	Number of staff at the end of year 3
Credit Underwriting	52,000	45
Account Managers	56,000	46
Collections	30,000	130
Management	150,000	11
Accounting/Admin	50,000	10
IT	70,000	10
Underwriting Support	50,000	9
Trade Credit	30,000	12
Sales	70,000	22
Schedule Purchasing	30,000	9
Total Staff	47,670 (Avg)	304

- Referral fees will be paid to financial institution partners at a rate of 5% of Discount Revenue
- Telecommunication and equipment charges were calculated using historic data from LSQ Funding.
- Operations will be based in Orlando, FL. Occupancy expenses were estimated based on the current real estate market conditions in the city and are represented on a gross basis, including utilities.
- Interest rates used in modeling are based on the current prime and LIBOR rates as of April 20, 2000.

Projected Cash Flows

The following pages show cash flows for the three years following Series C funding. All financial projections are subject to the following assumptions:

- These projections have been prepared by LSQ based on knowledge of the industry and reasonable expectations of the future state and have not been reviewed by an independent accountant.
- Some key factors were derived from or confirmed by referencing publicly available material or consultants.
- The actual results may vary significantly from those reflected in these projections, and these figures are not intended to be taken as a guarantee of particular results.
- Capital structure funding based on an 80% advance rate against net funds employed
- Revenues will be derived from the following sources.

  Discount income from the purchase of receivables
  Advertising
  Interest earned
  Transaction-based fees

Other revenue sources may be identified through B2B transactions in the LSQ MarketPlace, but have not been considered for purposes of projections. In addition, LSQ has not included any revenue allocation to account for the expected migration from MarketpPlace participant to client.

Sensitivity of cash flows

The table below shows sensitivity of the financial results if there is a 15% variance in the number of FIs and the number of deals closed per FI (all figures in 000s and referencing EBITDA).

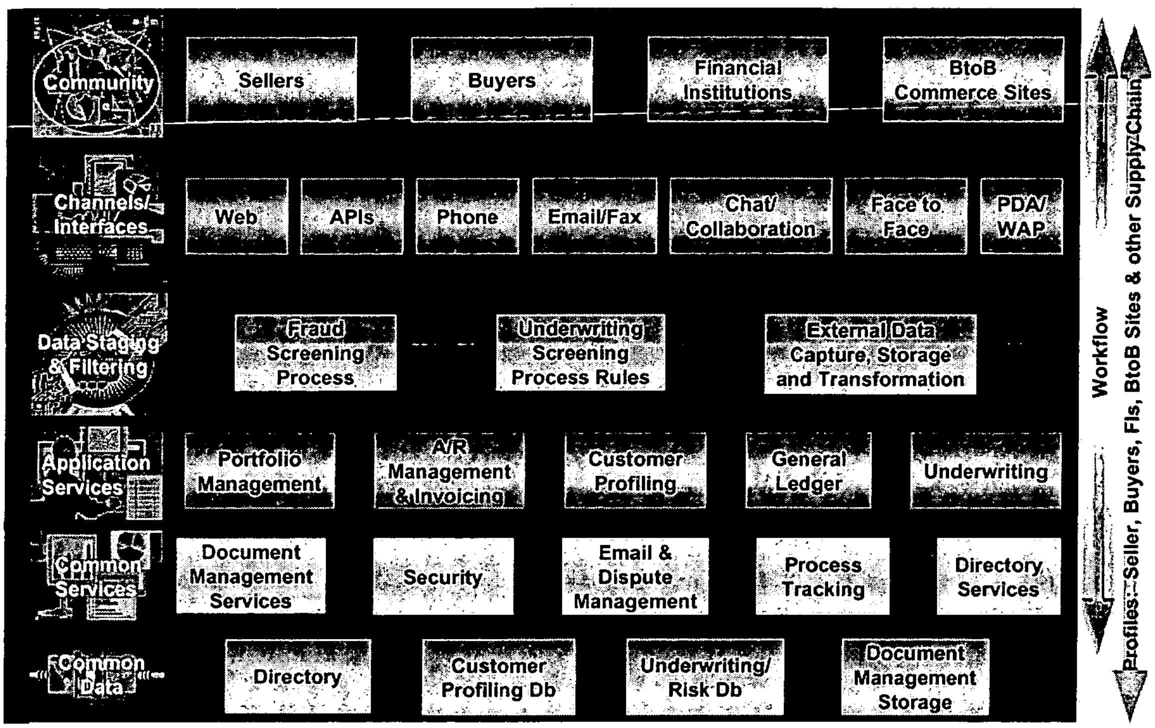
EBITDA SENSITIVITY		
	Year 2	**Year 3**
Expected	$32,224	$62,015
High End	$43,562	$80,92
Low End	$21,709	$44,680

Insert Cash Flow Spreadsheets Here

Appendix B – IT Architecture

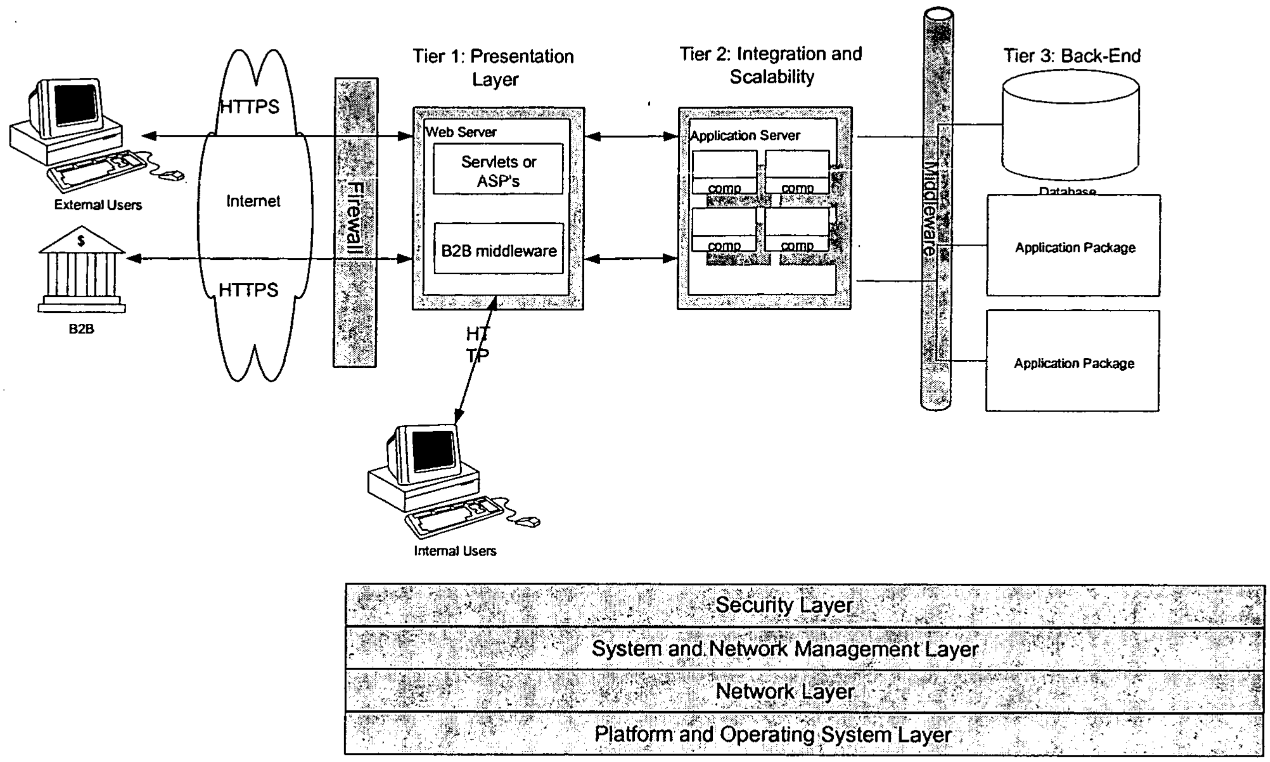
Application Architecture Footprint

The following diagram depicts a preliminary Application Architecture Footprint defined using the Business Requirements, IT Requirements, Principles and Standards:



Application Infrastructure

The following diagram depicts a preliminary Application Infrastructure Footprint defined using the Business Requirements, IT Requirements, Principles and Standards:

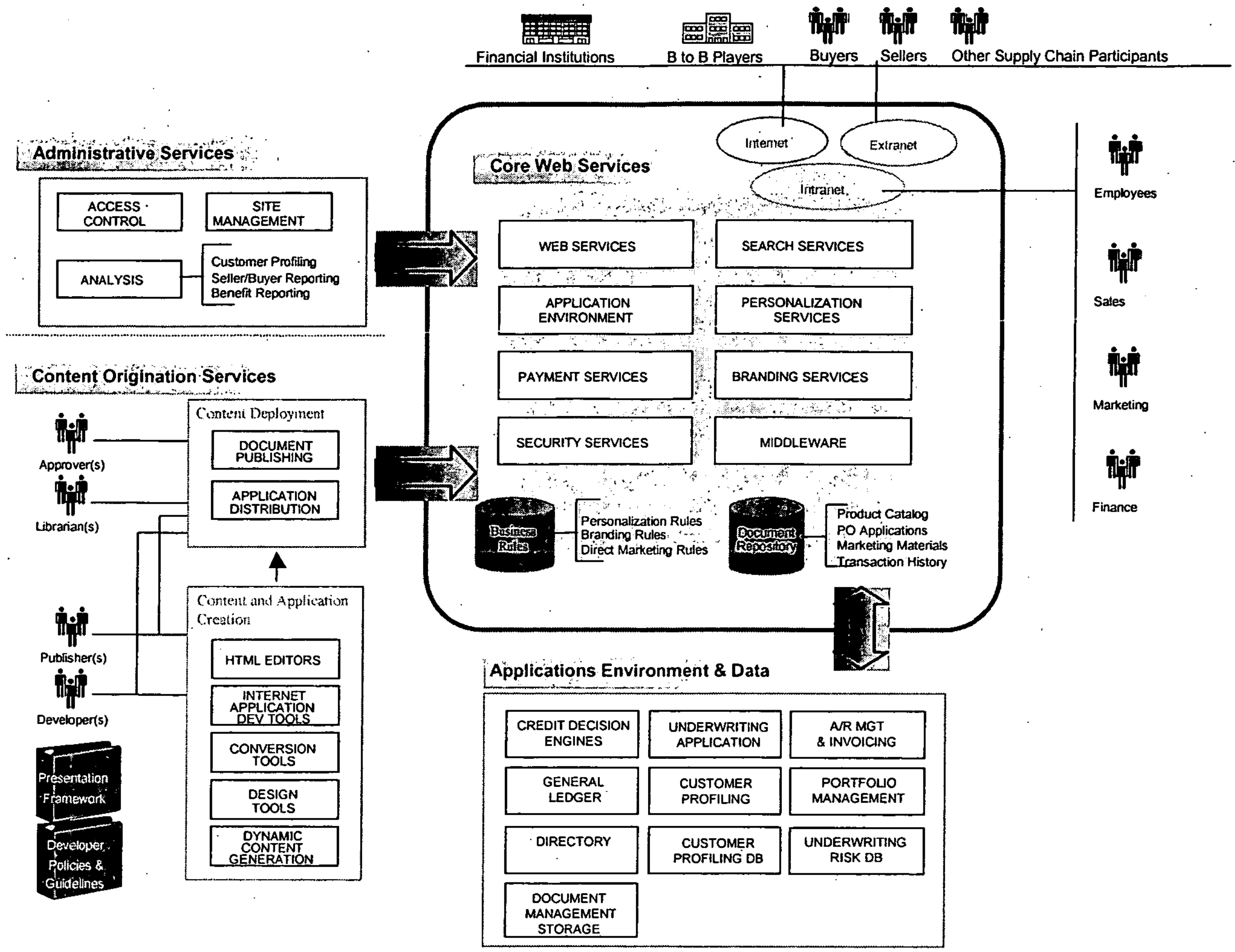


This infrastructure emphasizes the following characteristics:

- Connectivity to external users, business partners and internal users: this is provided by the Presentation Layer tier (Tier 1) of the architecture. This tier is implemented as a web server, and includes a number of components which provide user interface functions (implemented either as Servlets or Active Server Pages – ASPs) as well as B2B middleware services
- Integration and scalability: this is provided by Tier 2 of the architecture. This tier is implemented as an Application Server. It includes a number of components that provide the Common Services defined in the Application Architecture Footprint (see above). Those components also provide a common interface to the back-end services (vendor packages) and databases. A layer of middleware provides the connectivity between Tier 2 and the back end services and databases.
- Security
- Manageability

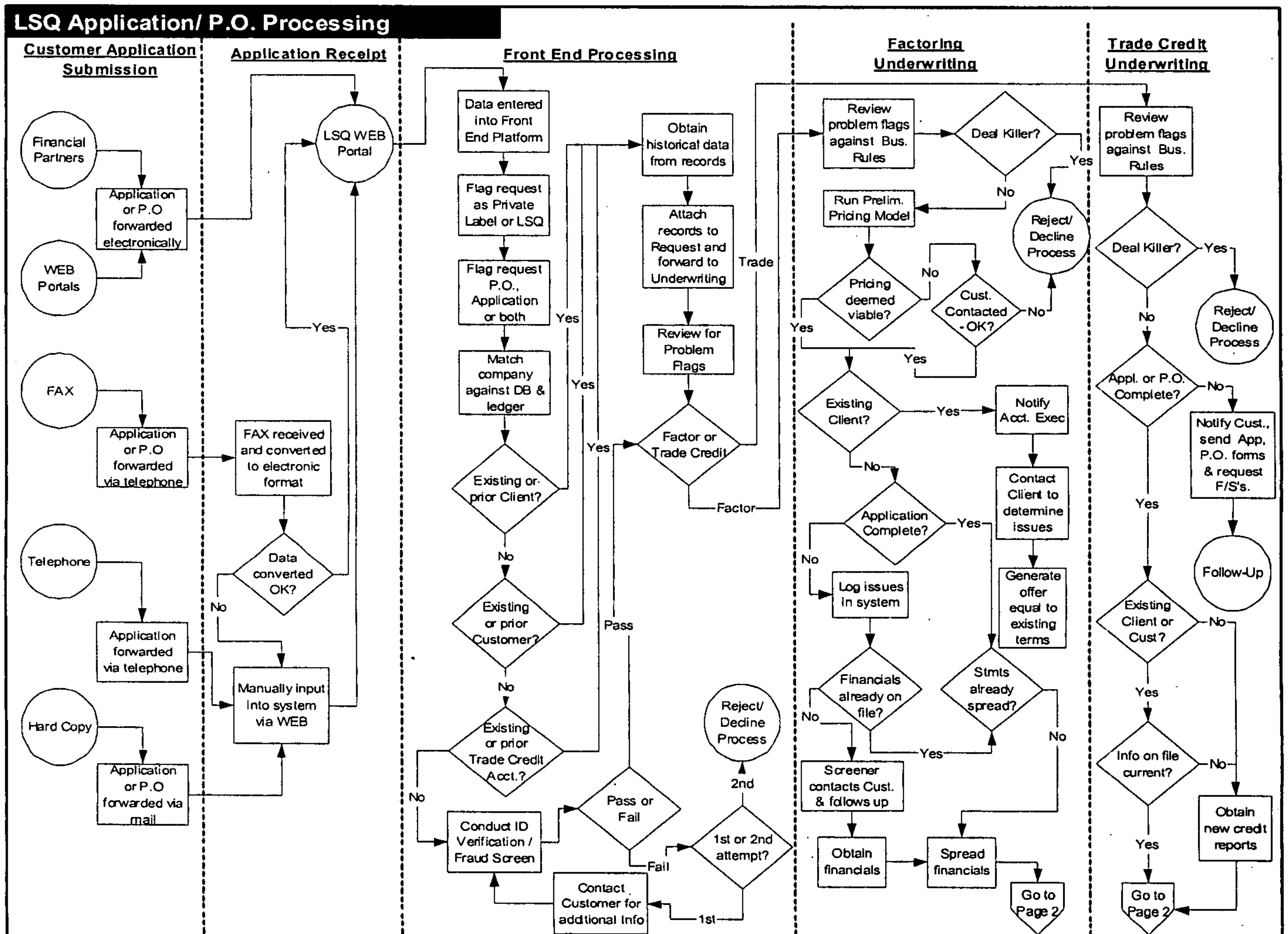
E-Commerce Reference Architecture

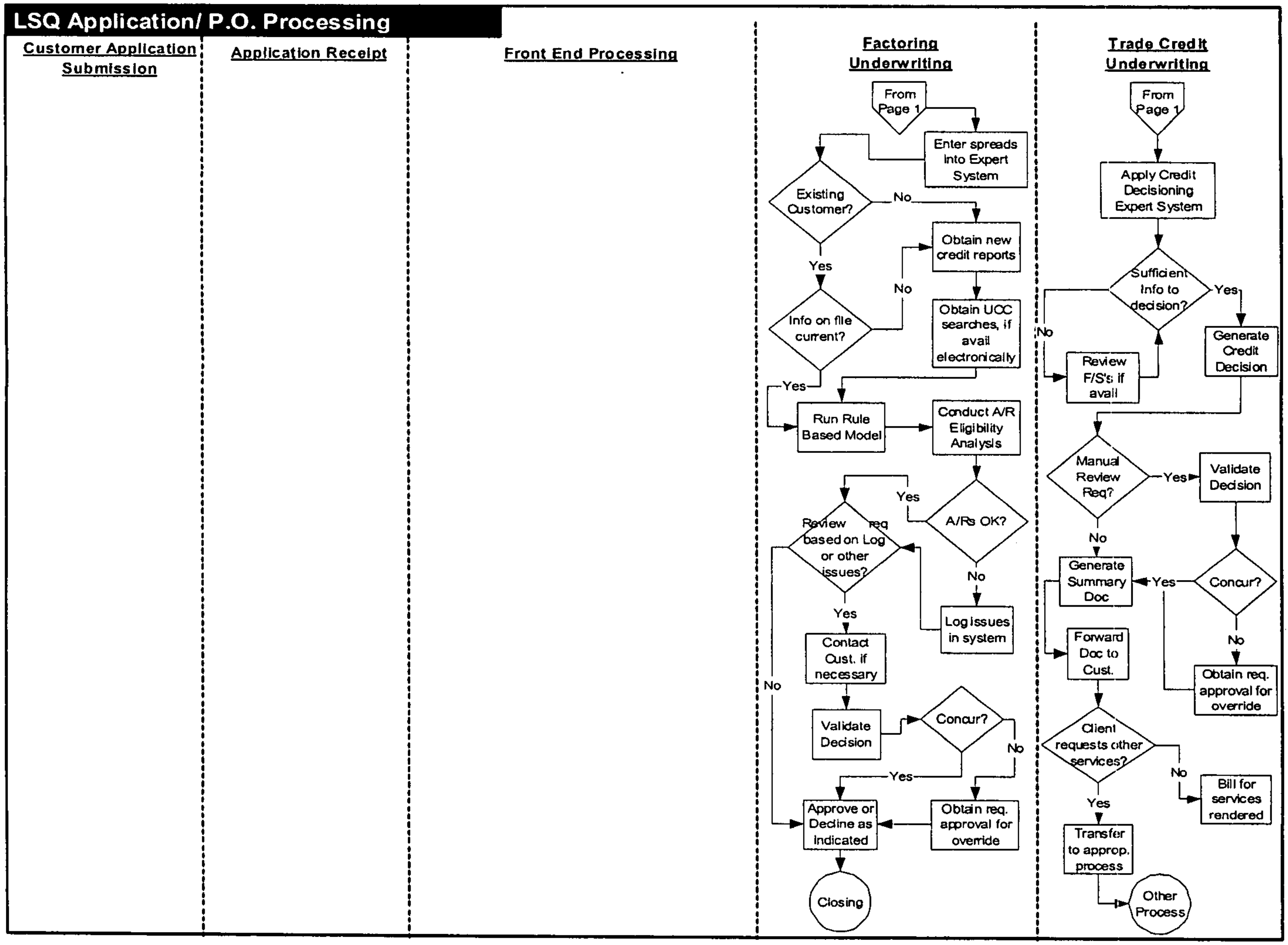
The following diagram depicts the services required to support LSQ's e-commerce business requirements. All components of the technology infrastructure will be accessed through the intra- extra- or Internet.


Financial Institutions
B to B Players
Buyers
Sellers
Other Supply Chain Participants
Administrative Services
ACCESS CONTROL
SITE MANAGEMENT
ANALYSIS
Customer Profiling
Seller/Buyer Reporting
Benefit Reporting
Content Origination Services
Approver(s)
Librarian(s)
Content Deployment
DOCUMENT PUBLISHING
APPLICATION DISTRIBUTION
Content and Application Creation
HTML EDITORS
INTERNET APPLICATION DEV TOOLS
CONVERSION TOOLS
DESIGN TOOLS
DYNAMIC CONTENT GENERATION
Publisher(s)
Developer(s)
Presentation Framework
Developer Policies & Guidelines
Internet
Extranet
Intranet
Core Web Services
WEB SERVICES
SEARCH SERVICES
APPLICATION ENVIRONMENT
PERSONALIZATION SERVICES
PAYMENT SERVICES
BRANDING SERVICES
SECURITY SERVICES
MIDDLEWARE
Business Rules
Personalization Rules
Branding Rules
Direct Marketing Rules
Document Repository
Product Catalog
PO Applications
Marketing Materials
Transaction History
Employees
Sales
Marketing
Finance
Applications Environment & Data
CREDIT DECISION ENGINES
UNDERWRITING APPLICATION
A/R MGT & INVOICING
GENERAL LEDGER
CUSTOMER PROFILING
PORTFOLIO MANAGEMENT
DIRECTORY
CUSTOMER PROFILING DB
UNDERWRITING RISK DB
DOCUMENT MANAGEMENT STORAGE

Appendix C – LSQ Factoring Workflow Diagrams

The diagrams on the following pages depict the factoring process flows that will be implemented at LSQ. These processes are based on industry leading practices, and have been uniquely modified to address the type of volume expected at LSQ




LSQ Application/ P.O. Processing
Customer Application Submission
Application Receipt
Front End Processing
Factoring Underwriting
From Page 1
Enter spreads into Expert System
Existing Customer?
No
Yes
Obtain new credit reports
Info on file current?
No
Obtain UCC searches, if avail electronically
Yes
Run Rule Based Model
Conduct A/R Eligibility Analysis
A/Rs OK?
Yes
No
Review req based on Log or other issues?
Log issues in system
Yes
No
Contact Cust. if necessary
Validate Decision
Concur?
Yes
No
Approve or Decline as Indicated
Obtain req. approval for override
Closing
Trade Credit Underwriting
From Page 1
Apply Credit Decisioning Expert System
Sufficient Info to decision?
Yes
No
Generate Credit Decision
Review F/S's if avail
Manual Review Req?
Yes
No
Validate Decision
Concur?
Yes
No
Generate Summary Doc
Obtain req. approval for override
Forward Doc to Cust.
Client requests other services?
Yes
No
Bill for services rendered
Transfer to approp. process
Other Process

Appendix D – Management Profiles

LSQ is led by a management team with significant Banking and Finance industry experience. The team brings together the necessary passion, knowledge and expertise to facilitate the successful implementation and positioning of LSQ as a market leader.

Maxwell Eliscu
President

Max Eliscu is President and Founder of LSQ Funding Group, L.C., a successful offline provider of small business receivable management, trade credit underwriting and factoring. Eliscu founded LSQ Funding Group in June of 1996, and has steered the company to consistent growth and profitability since inception. Annual growth and net income margins have exceeded 60% and 40%, respectively. Historical bad debt experience has been less than 3 basis points. Prior to founding LSQ Funding Group, Eliscu served as a Commercial Banking Officer with NationsBank, N.A. Eliscu is a graduate of Georgetown University.

XX YYY
Corporate Strategy and Development

XX YYY, an 18-year veteran of the banking industry, will leave his position as Senior Vice President, Credit Risk Management Executive (state), <<leading financial institution>> to join LSQ. In his last position at <<leading financial institution>>, YYY directly managed the <Regional> Lending Team with a portfolio of $2.5 billion. Roles and responsibilities included asset quality planning, strategic portfolio management, budgeting and expense control initiatives. National initiatives included Image management, Website Development Strategies, CRM Sales Management and Value Packaging. YYY has also served as <state> Commercial Sales Executive and <state> Credit Policy Executive. YYY is a graduate of the University of Oregon.

Paul Ellenbogen
Credit Policy

Paul Ellenbogen is Executive Vice President and Senior Credit Manager of LSQ Funding Group, L.C. He is a member of the initial management team of LSQ and is responsible for the design and structure of LSQ's operations and credit strategy. Ellenbogen's efforts at LSQ have driven LSQ's service quality, efficiency, profitability and low bad debt experience. Prior to joining LSQ, Ellenbogen was a Credit Manager with Barclays Commercial Corporation, supervising its Southwest Credit Center. While at Barclays, Ellenbogen served on its client review committee and was directly responsible for client and customer risk in its $500MM factoring portfolio. Ellenbogen is a graduate of Pace University.

XX YYY
Credit and Operations

XX YYY, a 35-year veteran of the traditional factoring industry, will leave his position as Vice President and Systems Coordinator at <leading national old-line factoring firm> to join LSQ. In his last position YYY's roles and responsibilities included developing the firms proprietary underwriting, collection and client trade credit model, as well as the development and supervising its client system support hotline. YYY is a graduate of the Monroe School of Business and the New York Institute of Credit.

Roger Allen
Credit Administration

Roger Allen is Senior Vice President, Sales and Marketing, of LSQ Funding Group, L.C. While at LSQ Allen has been responsible for all sales and marketing initiatives and has contributed to LSQ's 60% growth rate. Prior to joining LSQ, Allen was the Portfolio Manager for the Bank of America's small business factoring product. As Portfolio Manager, Allen was directly responsible for all client and customer relationships, portfolio credit risk and daily operations. Allen is a 10-year veteran of the traditional factoring industry. Allen is a graduate of Wofford College and earned his MBA from the Stetson School of Business and Economics, at Mercer University.